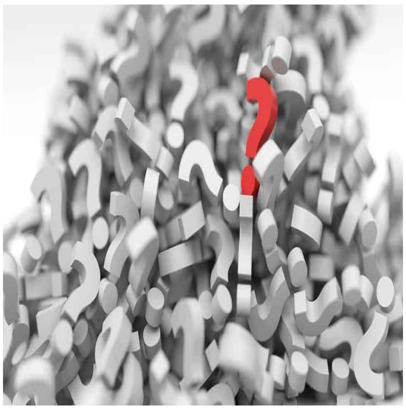

Better Buy for the TFSA: Cenovus Energy Inc. or Canadian Natural Resources Limited?

Description

As earning season gets into full swing, investors are scrutinizing energy sector companies to look for signs of a meaningful recovery in their earnings.

The last quarter was especially important for oil sands producers after some mega-sized deals which, in theory, should boost revenues and bottom lines for buyers as oil prices surge.

Canadian Natural Resources Limited (TSX:CNQ)(NYSE:CNQ) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) are two top producers which have released their third-quarter earnings. Let us find out which one is a better buy for your Tax-Free Saving Account (TFSA).

Canadian Natural Resources Limited

Canadian Natural Resources, or CNRL, runs major operations in western Canada, the U.K., the North Sea, and offshore Africa.

During the recent oil downturn, the company positioned itself for future growth by aggressively buying assets to take advantage of lower prices.

After acquiring oil sands assets from **Royal Dutch Shell**, CNRL closed another deal this May, in which it bought a 70% non-controlling stake in the Athabasca Oil Sands Project Mines, adding 2.3 billion barrels of proven reserves under its belt.

The third-quarter earnings show that this growth strategy is working for CNRL, as its profit topped analysts' estimates on increasing output from acquired assets, pushing production above a million barrels a day for the second straight quarter.

CNRL's $0.19-a-share profit, excluding some items, was higher than the analysts' $0.09-a-share average forecast.

With rising profits, the company was also able to cut its operating costs at its Athabasca Oil Sands Project to $24.60 per barrel of synthetic crude from $27.50 in the second quarter.

Cenovus Energy

Alberta-based Cenovus was in a more precarious position, because its ~$17 billion deal to acquire **ConocoPhillips's** oil sands and Deep Basin assets added a lot of debt to the company's balance sheet, forcing it to sell some of its assets and borrow from the market.

But the company's third-quarter earnings show its production doubled, helping to beat analysts' expectations. Cenovus made $0.28-a-share profit, higher than analysts' $0.10-a-share average estimate.

With a brightening earnings outlook, Cenovus was also able to accelerate its asset sales to cut its debt load. The $2.8 billion in divestitures this year brought Cenovus closer to paying off a $3.6 billion bridge loan it arranged to pay for for the ConocoPhillips deal.

Which one is better?

There is no doubt that both companies have positioned themselves to benefit from rising oil prices after adding substantial capacity to their operations.

With a dividend yield of 2.43%, CNRL could be a great addition to your income-producing portfolio. The company pays a $0.28-a-share quarterly dividend, or annualized $1.1 a share, which is 17% higher than what it delivered last year.

Cenovus is a risky bet with a substantial upside potential if the company is able to cut its debt and if oil prices continue to rise.

I think a 75%/25% allocation would be a good strategy to benefit from rising dividends at CNRL and capital gains from Cenovus.

CATEGORY

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2. NYSE:CVE (Cenovus Energy Inc.)
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