Should You Buy Enbridge Inc. or Suncor Energy Inc. Today?

Description

A recovery in oil prices has investors looking at the energy sector with new interest in the hopes of finding quality names that could deliver some big gains.

Let's see if **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) or **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) deserve to be in your portfolio.

Suncor

Suncor has weathered the oil rout in much better shape than most of its peers. In fact, the stock currently trades pretty close to where it was when WTI oil fetched US$100 per barrel.

What's the scoop?

Suncor is primarily known as an oil sands producer, but the company also owns large refineries and more than 1,500 Petro-Canada retail locations. The integrated nature of the business lines provides a nice hedge against lower oil prices.

The refining operations get reduced input costs as oil prices fall and can generate nice margins when the finished products are sold. This is especially true when the gap between WTI oil and Brent oil prices expands.

In addition, lower oil prices generally translate into cheaper gasoline, and that can result in higher traffic for the service stations, as more people decide to take trips.

Suncor has taken advantage of the downturn to add strategic assets at attractive prices, including the takeover of Canadian Oil Sands.

The company also has a solid portfolio of organic projects that should provide strong production growth. Two of the projects, Fort Hills and Hebron, are scheduled to begin commercial operations by the end of 2017.

Suncor continues to raise its dividend, and more increases should be on the way as oil prices improve and output expands.

The current payout provides a yield of 2.8%.

Enbridge

Enbridge closed its $37 billion purchase of Spectra Energy earlier this year in a deal that created North America's largest energy infrastructure company.

The purchase added important gas assets to complement Enbridge's heavy focus on liquids pipelines. Spectra also brought a nice backlog of development projects.

In total, Enbridge has about $31 billion in commercially secured projects on the go that should be completed in the medium term. As the new assets go into service, Enbridge has said it expects cash flow to grow enough to support annual dividend hikes of 10-12%.

The stock has come under pressure this year amid the broader pullback in the energy infrastructure sector and took another hit recently after the earnings miss for Q3 2017.

Enbridge says Q4 should be better and confirmed its available cash flow from operations guidance for the year, so the pullback might be a bit overdone.

The market is concerned dividend growth will not come in at the high end of previous guidance, but investors should still see decent increases as the development projects are completed.

At the time of writing, Enbridge provides a dividend yield of 5.5%.

Is one more attractive?

Suncor has proven to be [a stable play on the energy sector] while providing reliable and steady dividend growth. If you want the safer bet today, Suncor is probably the better choice.

However, investors who can handle a bit of volatility might want to start a contrarian position in Enbridge. The existing distribution provides above-average yield, and the company's portfolio of development projects is capable of supporting continued dividend growth for several years.

At the current price, the stock looks attractive.

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Date
2025/08/16
Date Created
2017/11/19
Author
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