Oil Is at a 2-Year High: Is it Time to Buy Top Dividend Stocks in the Energy Space?

Description

The ongoing rally in crude oil doesn't seem to be fading away.

The benchmark North American oil price hit its highest price in two-and-half years on November 21. The price of West Texas Intermediate (WTI) touched US$58.05 a barrel, up by about 35% since a low in June.

This strength in oil markets has created some interesting buying opportunities in the Canadian energy space. The companies that are constantly cutting operating costs, using efficient technologies, and buying cheap assets are the ones that offer the best value to long-term investors.

Dividend-paying companies, such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) are on the top of my list for income investors. Let us see which one is better for your portfolio.

Suncor

Suncor stock has rallied ~15% in the past three months, as oil bulls snapped this top oil producer to benefit from a rebound in oil prices.

Though Suncor has a strong correlation with price moves in oil markets, there are other reasons that make this producer attractive.

Suncor is one of the best-managed and diversified producers in Canada. It has successfully re-organized itself during the past five years of the slump in energy markets.

Its production growth and lower costs have enabled the company to continue expanding its dividend, even while oil prices remain depressed. Since 2013, Suncor's dividend payout has grown 60% to $0.32 a share.

And the company hasn't missed a dividend increase in the past 15 years. The latest increase was in the first quarter of 2017, when the quarterly payout was increased by 10%.

Suncor is a fantastic turnaround story in the Canadian oil patch, showing investors that it can survive and create value for its shareholders. Nobody knows how far this rally in oil prices will go, but having some exposure to this important segment of the Canadian economy is a good idea for income investors.

Canadian Natural Resources

The growth story at Canadian Natural Resources, or CNRL, is not much different than Suncor. It stock has soared ~16% in the past three months to trade at $44.21, recovering from the 52-week low of $35.90 in July.

Investors are bullish on CNRL's future growth potential after the company nicely positioned itself to benefit from for a sustained recovery in oil prices.

For example, the company acquired oil sands assets from **Royal Dutch Shell** — a move that is likely provide a great boost to its cash flows as oil prices recover.

This strength in the company's assets is reflected in the overall production target for 2018 that CNRL plans to ramp up by 17% when compared to the output level of this year.

With a dividend yield of 2.49%, CNRL pays a $0.275-a-share quarterly dividend, or an annualized $1.1 a share, which is 17% higher than what it delivered last year.

Which one is better?

It is tough to decide which stock to buy when both companies have leading positions in the energy space, offering attractive long-term value. I would equally divide my investment to get exposure in both of these energy gems.

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