Better Buy: Canadian Natural Resources Limited or Suncor Energy Inc.?

Description

The good news for energy bulls is that oil has found good support between the $60 and $65 range. The commodity has been trading in this range for several months now.

This strength means many oil producers are now profitable, and it could be the right time for investors to start picking some strong names from the energy space.

For such investors, Canada's two top oil stocks — **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) and **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) — are good candidates due to their less-risky profile and their ability to produce higher returns if oil prices continue their upward journey. Let's have a closer look which stock is a better buy today.

Canadian Natural Resources

I don't think Canadian Natural Resources is getting a fair deal from investors these days, despite its remarkable performance during 2017 and the fourth quarter. Its stock is down about 14% year to date, largely underperforming the broader market.

This pullback doesn't make sense at a time when energy prices have stabilized, and Canadian Natural Resources's adjusted funds from operations surged about 60% last year. In the fourth quarter, funds from operations rose 25%, and earnings per share (EPS) rose 15%.

These impressive numbers suggest that the company is in a much better position to produce growing profitability as energy prices stabilize. Analysts expect Canadian Natural Resources to deliver EPS of $2.21 in fiscal 2018 — a surge of 86% from 2017, giving its stock a forward multiple of just 15.78.

For income investors, Canadian Natural Resources also offers great value. The company pays an annual dividend of $1.34 per share, which translates into an annual yield of 2.85%. After announcing a 22% hike in its quarterly dividend to $0.335 per share this month, Canadian Natural Resources is on track for 2018 to mark the 18th straight year in which it has raised its annual dividend payment.

Suncor

Canada's largest oil sands producer is probably one of the best stocks if you want an exposure to Canadian oil sector. Since the 2014 oil downturn, Suncor management has undertaken an aggressive cost-cutting program that has prepared this diversified and integrated oil giant to take advantage of higher oil prices.

During the past five years, Suncor's cost to dig a barrel of crude oil has fallen to $23.80 in 2017 from $37 in 2013, representing the lowest level achieved in more than a decade. With crude prices trading at more than $60 a barrel, Suncor expects to generate over $10 billion in funds from operations in 2018, giving it a cash flow yield of ~15%.

Trading at $41.44, and with an annual dividend yield of 3.47%, Suncor stock has great income appeal for long-term investors. Suncor has a solid history of rewarding investors with growing dividends. Last month, Suncor hiked its quarterly dividend by 12.5% to $0.36 per share, marking the 16th year of consecutive annualized dividend increases.

Which stock is better?

Both stocks have strong fundamentals and leading positions in the oil sector. I think these companies will be good additions to your portfolio if you want to hold them over a long period. And with the current weakness in their stock prices, the timing seems right to make the move.

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