Which of These Energy Giants Should You Consider?

Description

Energy stocks have generally seen an uptick in the last month. Without a crystal ball, there's no telling if they'll continue to go higher or lower in the near term. However, I can tell you that the energy giants discussed in this article offer safe dividend yields of ~3% and upside potential.

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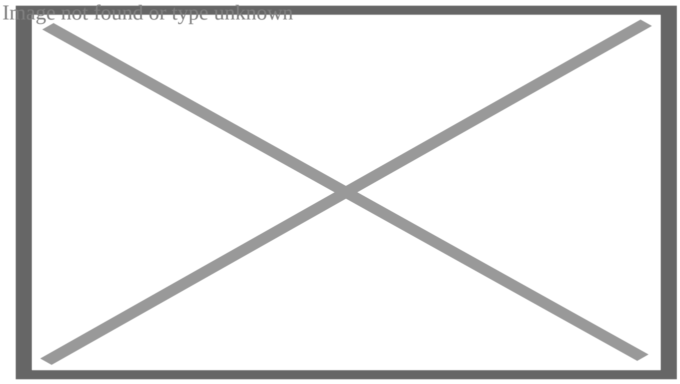
Suncor Energy Inc. (TSX:SU)(NYSE:SU) is the largest energy company by market capitalization on the Toronto Stock Exchange. It is a diversified integrated energy company with operations in oil sands development and upgrading, offshore oil and gas production, petroleum refining, and product marketing under the Petro-Canada brand. This means that its performance tends to be more stable than others in the space.

Despite relatively low energy prices and the negative sentiment in the energy space, Suncor stock is still ~17% higher than it was three years ago. The energy giant remains very profitable. Last year, it achieved net income of ~$3.5 billion and ~$7.1 billion of operating cash flow. On a per-share basis, that's adjusted earnings of $1.92 and operating cash flow of $5.40.

Suncor is awarded an S&P credit rating of A-. Its recent debt-to-asset ratio was conservative at ~0.46. As well, its cash-flow-to-debt ratio was ~0.21.

Suncor has increased its dividend per share for 15 consecutive years. It last increased its dividend in February by 12.5%. At ~$46.30 per share, Suncor offers a yield of 3.1%.



Canadian Natural Resource Ltd. (TSX:CNQ)(NYSE:CNQ) is the third-largest energy company by market cap on the TSX. This year, the senior oil and gas producer estimates that its production mix will be ~25% natural gas, ~38% oil sands mining and upgrading, ~25% heavy crude oil, and ~12% light crude oil and natural gas liquids.

Canadian Natural Resources maintains a strong balance sheet to support an investment-grade S&P credit rating of BBB+. Its recent debt-to-asset ratio was reasonable at ~0.57, and its recent cash-flow-to-debt ratio was ~0.17.

Canadian Natural Resources has increased its dividend per share for 17 consecutive years. It last increased its dividend by 21.8% in March. At ~$42.40 per share, the oil and gas producer offers a yield of almost 3.2%.

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Investor takeaway

Higher commodity prices will have a bigger impact on Canadian Natural Resources's performance than on Suncor's. The analyst consensus from **Thomson Reuters** has a 12-month target price of $51.90 per share on Suncor and a target price of $53.20 per share on Canadian Natural Resources, which represents upside potential of ~12% and ~25%, respectively. So, the latter seems to be a better buy at the moment. Investors who are interested in Suncor should begin scaling in the stock in the low $40s.

If you have a big appetite for risk for potentially more upside, consider these other energy stocks.

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