Suncor Energy Inc. vs. Canadian National Railway: Which Dividend Stock Is a Better Buy?

Description

Surging oil prices globally have brightened the outlook for many energy and infrastructure companies. But the equation isn't that simple in Canada, where pipeline capacity constraints are forcing producers to cut their productions.

Given the political impasse and the time required to build new capacity, investors are shying away from getting bullish on Canadian oil producers, despite oil prices reaching the highest level in the past three years.

In this dismal situation, however, there are still some opportunities that long-term investors should seriously consider. Here are the two Canadian dividend stocks that I think offer compelling valuations to take advantage.

Suncor

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is Canada's integrated energy company, managing a portfolio of high-quality assets, including oil sands extraction, refining, and marketing the energy products to industrial, commercial, and retail customers. In Canada, Suncor operates more than 1,500 Petro-Canada stations.

Despite the pipeline bottlenecks, early this month Suncor announced that its Fort Hills oil sands mine is now producing at a rate of 150,000 barrels per day, and the project's third and final extraction train will be online this month, allowing Suncor to reach full 190,000 bpd capacity earlier than expected.

The company was on track to boost its output by another 10% next year, as the company said it has enough pipeline space to move all of its barrels, including the new barrels from Fort Hills.

According to its CEO Steve Williams, Suncor's access to pipelines and connection to downstream refineries completely insulated it from the big discounts between Western Canada Select and West Texas Intermediate benchmarks.

Trading at $51.23 at the time of writing, Suncor is a good long-term bet to benefit from its lower operating costs, higher oil prices, and increased production. Suncor raised its quarterly dividend by 12.5% for 2018 to $ 0.36 a share.

CN

Canadian National Railway (TSX:CNR)(NYSE:CNI) has a critical role to play when it comes to moving freight across North America. It's the only railway in North America that touches three coasts, allowing shipments to reach 75% of the population, moving over $250 billion worth of goods every year.

CN's dominant position in the sector has allowed the company to pay uninterrupted dividends since going public in the late 1990s. This year, management boosted the quarterly payout by 10% to $0.46 per share, totaling $1.84 annually.

The company has been increasing its dividend with a five-year CAGR of 14%. During the past five years, investors in CNR stock have doubled their investments.

As Canadian oil producers struggle to move their oil through pipelines, they're increasingly relying on CN's rail network. But this situation has also created capacity constraints for CN, creating a backlog that's infuriated many customers.

To deal with this situation, CN is spending a record $3.4 billion to expand its rail infrastructure in Manitoba, Saskatchewan, Alberta, and British Columbia, and it's adding more employees to the workforce.

Which stock is better?

Both companies have a consistent track record of delivering superior returns. Due to their leading positions in their industries, I would take an equal position with a long-term view. But if you don't like the oil market's volatility, then it's better to stick with CN Rail.

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Author
hanwar