Suncor Energy Inc. vs. Cenovus Energy Inc.: Which Oil Stock Is a Better Buy?

Description

As oil prices continue to rise, many investors have started to think positively about the energy sector stocks, as they fear being left out of this remarkable rally.

Goldman Sachs, one of the largest investment banks, has recently raised its outlook for its commodities index, which tracks assets like crude oil and copper. It now thinks the Goldman Sachs Commodities Index will return 8% over the next 12 months, up from its previous forecast for a 5% gain.

This strength in oil markets 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.

Let's find out which of Canada's two top oil stocks—**Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE)—is a better buy today.

Suncor

I have been bullish on Suncor, Canada's second-largest oil producer, for about a year now. The company is among the few top players that have positioned themselves to take advantage of strength in oil prices.

Since the 2014 oil downturn, Suncor has undertaken an aggressive cost-cutting program and expanded its asset base by buying assets from operators that decided to exit Canada. In 2017, Suncor's cost to dig a barrel of crude oil fell to $23.80 from $37 in 2013, representing the lowest level achieved in more than a decade.

Now that oil is trading above $70 a barrel, Suncor is expected to generate a lot of cash. The company's operating profit, which excludes one-time items, jumped 21.3% to $985 million, or $0.60 per share, in the first quarter, helped by better pricing and margins.

Trading at $52.95, Suncor stock is at the 52-week high. Given the strength in oil prices and the company's ability to ship more oil to the U.S., despite the pipeline constraints in Canada, I think Suncor stock has more room to gain.

Cenovus

Cenovus is a riskier bet for oil bulls. Despite a recovery in oil prices, the company reported a $914 million net loss for the first quarter last month after its bet to hedge against the falling oil prices went wrong.

Calgary-based Cenovus hedged 80% of its oil production in the first half of this year to oil prices that were forecast to range between US$45.30 at the low end and US$62.77 per barrel at the high end. But West Texas Intermediate oil didn't trade in this range, causing a huge loss to Cenovus.

This miscalculation isn't the only headache for Cenovus management. The company was forced to cut its oil output due to Canada's pipeline constraints. The company has indicated that it may slash the output further if new export pipelines are not built to carry oil out of Alberta.

But despite these setbacks, Cenovus stock is catching up fast, as rising oil prices improve the outlook for its asset sale program required to cut its huge debt load. Trading at $13.92, Cenovus stock is up 17% this year.

The bottom line

There is no doubt that Cenovus has more upside potential if oil prices gain further and it has successful in cutting down its debt pile. But for risk-averse investors, I would still recommend Suncor, which has solid integrated operations, ranging from oil fields to refineries to gas pumps.

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