Is Suncor Energy Inc. (TSX: SU) or MEG Energy Corp. (TSX:MEG) a Better Stock Pick Today?

Description

The recovery in oil prices is putting a tailwind behind some of Canada's producers, including those with assets in the oil sands regions.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **MEG Energy Corp.** (TSX:MEG) to see if one deserves to be in your portfolio right now.

Suncor

Suncor's stock price is up about 40% in the past 12 months, and recently hit its highest level in nearly a decade. The company emerged from the downturn in much better shape than most of its peers, and actually took advantage of distressed situations in recent years to add strategic assets at attractive prices.

Suncor's strong balance sheet also allowed the company to push ahead with major developments during the downturn, including the Fort Hills oil sands and Hebron offshore projects, which are now finished and ramping up production.

The acquired assets and two major organic developments position Suncor for strong growth as oil prices recover, and the company's refining and retail businesses continue to provide a balanced revenue stream, thus enabling Suncor to make money all along the hydrocarbon value chain.

The board raised the dividend by 12.5% for 2018 and more gains should be on the way, supported by rising production. The current yield is 2.7%.

MEG

MEG is a pure-play oil sands producer. The company took a major hit during the oil crash, falling from $40 per share to below $4 at the bottom. Investors finally started to see some light at the end of the tunnel this year, when the shares surged from $4.50 in late March to $11.50 in early July. Oil prices have since pulled back and MEG has followed suit. At the time of writing, the stock trades around $8.75 per share.

MEG sold its interest in a non-core asset earlier this year and used most of the $1.5 billion it received to pay down its debt. However, the company still carries about $3.5 billion in long-term debt, which remains an overhang for the stock when oil prices retreat, as we have seen in the past two weeks. MEG has a market capitalization of about $2.6 billion.

The company finished Q1 2018 with cash and cash equivalents of $675 million and an undrawn US$1.4 billion credit facility, so liquidity is not an immediate issue. MEG is moving ahead with expansion projects that should boost production to 113,000 barrels per day (bbls/d) from the expected

2018 exit rate of 95,000-100,000 bbls/d.

Net operating costs fell 29% in Q1 compared to the same period last year, so management is making good progress on those efforts. The company reported a Q1 operating loss of $18 million compared to a loss of $79 million in Q1 2017.

Is one a better bet?

MEG arguably offers more upside potential on a rally in oil prices. If you are of the opinion we are headed for a spike back above US$100 per barrel, MEG might be the way to go. Otherwise, I would make Suncor the first choice. The oil giant pays an attractive and growing dividend and is hedged against weak oil prices through the downstream businesses.

If you are not convinced the oil recovery has legs, other opportunities exist in the market today.

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