Is Husky Energy Inc. (TSX:HSE) or Suncor Energy Inc. (TSX:SU) Stock a Buy?

Description

Oil prices are heading higher, and investors who might be underweight the energy sector are searching for potential picks for their portfolios.

Let's take a look at **Husky Energy** (TSX:HSE) and **Suncor Energy** (TSX:SU)(NYSE:SU) to see if one deserves to be on your buy list.

Husky

Husky's shareholders had a rough ride during the oil rout. The stock fell from $36 per share in 2014 to a low near $12 in early 2016. In an effort to protect cash flow in the uncertain times, Husky switched its cash dividend to a stock dividend, but then suspended the payout as the situation worsened. Since then, the stock has gained more than 80%, and Husky has reinstated the distribution.

Stronger oil prices and lower costs are driving much better results. Husky reported Q2 2018 funds from operations of $1.2 billion, representing a 69% improvement over the same period last year. Free cash flow came in at $500 million compared to $123 million in Q2 2017.

As a result of the improved results and a positive outlook, Husky recently raised the dividend to $0.125 per share. That's good for an annualized yield of 2.3%.

The attraction of this stock lies in its growth opportunities. Husky is ramping up production at its oil sands sites and is pursuing offshore developments in Atlantic Canada, China, and Indonesia. In addition to the oil, natural gas, and natural gas liquids production, Husky also operates refineries.

Suncor

Suncor is Canada's largest integrated energy company with production, refining, and retail operations. The diversified nature of the revenue stream, along with a strong balance sheet, enabled Suncor to ride out the downturn better than most of its peers. The company maintained dividend increases through the oil rout and more gains should be on the way.

Similar to Husky, Suncor has a strong resource base to drive production growth for decades. The company’s newly completed Fort Hills oil sands and Hebron offshore sites are ramping up to capacity ahead of schedule, and Suncor has strategic positions in additional projects in Atlantic Canada, offshore Norway, and the UK North Sea.

Suncor reported its best Q2 cash flow ever, generating funds from operations of $2.9 billion. Operating earnings came in at $1.2 billion and net earnings more than doubled from $0.26 per share in Q2 2017 to $0.60.

The company has just increased its share buyback program from $2.15 billion to $3 billion, so management is obviously comfortable with the cash flow outlook. On the dividend side, Suncor raised the payout by 10% earlier this year. The current quarterly distribution of $0.36 per share provides an annualized yield of 2.7%.

Is one a better bet?

Husky and Suncor are both attractive picks for investors who have a long-term bullish view on the oil and gas sector.

If you only buy one, I would probably make Husky the first choice today. The stock comes with more risk, but also offers a shot at some impressive upside given the opportunities in the international offshore developments. At this point, I’m not sure the market is fully appreciating Husky’s potential.

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