Why Mess Around With Junior Oil Companies? Choose These 2 Solid Companies Instead

Description

The Canadian oil patch can't catch a break. It certainly is beginning to look like the stars are aligning against it. Trying to choose small-cap players has proven to be quite difficult. Many of those companies' share prices haven't moved at all for years, except for when they have moved down. At this point, it makes an investor wonder whether it is worth investing in the sector at all.

These false starts with the smaller capitalization companies, followed with a move backward, have been extremely discouraging. I have to say that these moves are enough to frustrate even the most stalwart buy-and-hold investors. Add to those challenges of dividend cuts from some of these companies, and it seems like it is about time to throw in the oily towel.

Or maybe, if your frustration has reached the breaking point, you should avoid only the riskier, smaller names in the sector. Perhaps it's time to throw in the towel on gambling on highly leveraged, small names and stick to the large caps — the ones that have been winning. After all, in strict opposition to the smaller names, industry leaders **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) have been performing quite well in the aftermath of the oil and gas bloodbath.

Much of their better performance was due to better long-term planning than other companies. Both Suncor and CNQ maintained better balance sheets going into the oil collapse. When other companies were spending in the good times, both of these large operators socked away cash that they were able to use to purchase assets. When weaker companies were slashing their hefty dividends to conserve capital, Suncor and CNQ were raising theirs. These companies followed a simple rule that is often missing nowadays: save in the good times, so you can spend in the bad.

Both of these companies benefit from diversified assets. The two companies have operations around the world, so they are not as negatively affected by Canadian production and pricing issues. Their results have been steady. CNQ increased funds from operations (FFO) by 50%. Suncor also had excellent results, increasing its FFO by over 75%. These results contributed to their ability to increase dividends, with CNQ hiking it by around 22% in January and Suncor raising its payout by 12.5%.

Luckily, both stocks have also pulled back somewhat from their highs, giving new investors the opportunity to enter a position a slightly reduced price. Of course, these are not the rock-bottom prices we saw a few years ago, but the fact that these companies are still up from their lows, as opposed to smaller companies that continue to languish, is encouraging.

Keep in mind that these two companies are probably not going to double and triple in price as you might get from a more highly leveraged, smaller name. But they do provide a relative degree of safety, steady dividends, and more predictable growth than you might receive otherwise. If you like to sleep better at night, then these two companies might be the ones for you.

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