Should You Buy Canadian Natural Resources Ltd. (TSX:CNQ) or Suncor Energy Inc. (TSX:SU) Stock Today?

Description

Oil prices are starting to recover after a brutal meltdown, which has bargain hunters searching for top stocks that might deliver big gains on an extended rally.

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

CNRL

CNRL is often cited as the Canadian energy company with the best overall asset portfolio. A diversified resource base of oil sands, heavy oil, light oil, natural gas and natural gas liquids properties in Canada, the North Sea, and Offshore Africa provides CNRL with the flexibility to focus its investment on the products that deliver the best returns.

The company generated adjusted net earnings of $1.35 billion in Q3 2018, compared to $229 million in the same period the previous year. Free cash flow came in at a healthy $950 million after dividend requirements.

The current quarterly dividend of $0.335 per share provides an annualized yield of 3.9%. The company raised the payout by 22.5% in 2018 and investors should see another generous hike in 2019.

The company has reduced its 2019 capital plan by $1 billion to $3.7 billion, citing pipeline uncertainty and Alberta's move to restrict oil production. Despite the capital cuts, CNRL's overall output will remain flat in 2019, while maintaining the flexibility to ramp up investment to take advantage of positive developments in the market.

The stock is up nearly 15% from the December low, but more upside should be on the way. At the time of writing, investors can buy the shares for $34.50. If oil continues its recovery through the first few months of 2019, investors could see CNRL move back toward the 2018 high around $49.

Suncor

Suncor doesn’t have the same diversification as CNRL on the production side of the business, but the energy giant offers revenue balance in a different way.

Suncor operates four large refineries and more than 1,500 Petro-Canada retail locations. These downstream assets provide a nice diversification in the company’s operations and can actually benefit when oil prices fall. The low cost of Western Canadian Select oil helped the refining and marketing business segments generated record Q3 operating earnings of $939 million.

Overall, the company generated operating earnings of $1.56 billion in the quarter.

Suncor completed two major development projects last year that are providing a nice boost to production. The Fort Hills oil sands facility is operating near its design capacity and the Hebron offshore project continues to ramp up as planned.

Suncor reduced debt by $1.2 billion in Q3 and bought back nearly $900 million in shares. The board has increased the current share repurchase program from $2.15 billion to $3 billion.

Investors received a 12.5% dividend increase in 2018 and a similar increase could be on the way this year. The current quarterly payout of $0.36 per share provides a yield of 3.7%.

The stock currently trades for less than $40 per share, compared to the $55 it hit last summer.

Is one a better buy?

CNRL and Suncor both appear oversold today and offer significant upside potential on a recovery in energy prices. Conservative investors might want to make Suncor the first choice due to its integrated business structure. Otherwise, I would probably split a new investment between the two companies today.

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