Better Energy Stock: Suncor Energy (TSX:SU) or Canadian Natural Resources Ltd (TSX:CNQ)?

Description

Editor's Note: A previous version of this article incorrectly stated Suncor's dividend yield as 7.9%. It has since been corrected to 3.6%.

Investors in search of defensive stocks with high dividend yields often turn to the energy sector. This sector was a bit of a letdown last year, however, with average losses that were worse than that of the TSX. As a result, many energy stocks are trading at a discount. Let's consider two Canadian energy stocks: **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

Which is the better buy right now?

Suncor Energy

SU is one of the largest Canadian integrated oil companies. The firm specializes primarily in extracting oil from the oil sands of Alberta. While oil sands have the potential to produce considerable revenue for the company because of their rarity and the quality of the oil they produce, the costs SU incurs through the production process are substantial.

Net income grew in every quarter of 2018 for SU and even doubled from the second to the third. The company's third-quarter results also showed a 27% increase in funds from operations. SU paid out $582 million in dividends during this quarter. The company's current dividend yield is 3.6%, and SU increased its dividend per share by 64% over the past four years.

One of SU's main weaknesses is its lack of diversification. The company generates most of its product from the same region and relies on the proper facilities, infrastructures, and modern technological advances to maximize output. Any serious problem in the chain of production can lead to disastrous financial consequences for the Calgary-based company.

Canadian Natural Resources

CNQ is one of the largest producers of heavy crude oil and natural gas in Canada. The company's operations span across much of northern Canada and extend abroad to some parts of the U.S., Europe, and Africa. Most of CNQ's production is focused in North America, though, and the company generates the majority of its revenues and profits from this region.

CNQ's share price has decreased by more than 30% since the beginning of 2018, despite the company's solid financial performance throughout the year. SU's third-quarter earnings report showed a year-to-date increase in revenue of 49%. The company's net income soared by 68% over the same period, which shows an increase in operating efficiency — a critical factor for energy companies.

CNQ increased its dividend per share by 48% over the past four years. The company's dividend yield currently sits at 3.7%, which is relatively low compared to many of its competitors. The firm generates more than enough cash flows to cover dividend increases. CNQ's quarterly cash from operations increased by more than 117% since the first quarter of 2017.

The bottom line

While SU had a better year on the stock market, CNQ had better financial results. CNQ's operations are more diversified, which provides more avenues for growth. SU's operations are concentrated in one specialized market, and although this market has great potential, SU's earnings are more sensitive to adverse economic conditions.

At this moment, CNQ seems like the more attractive choice.

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