Which Is the Better Dividend Stock: Suncor Energy (TSX:SU) or Canadian Natural Resources (TSX:CNQ)?

Description

There are various factors that make energy companies good candidates for dividend investors. First, the energy industry is capital intensive, which create a natural barrier to entry into the industry. Second, the demand for their products is relatively stable regardless of market conditions, thus ensuring that they'll generate cash flows even in times of economic downturns.

Let's look at two of the most prominent energy companies in Canada: **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ). Which is the better dividend stock?

Suncor Energy

There is little doubt that Suncor has the revenue base necessary to generate solid cash flows for years to come. The company is one of the largest oil producers in Canada and one of the largest independent oil companies in the world. Suncor runs operations in some of the richest areas of Canada, and has operations in other parts of the world as well, most notably in Norway and in the United Kingdom.

One of Suncor's main risk factors is the potential decline in oil prices. The company incurred a net loss in 2015, and the recently released fourth-quarter earnings were also unimpressive compared to the previous year. In both cases, oil prices were the primary cause. Despite these setbacks, the company continues to generate enough cash flows to sustain its dividend payouts. Over the past five years, the company's quarterly dividends have increased by about 176%.

How much can Suncor continue to increase its dividend payouts? The fact that the Calgary-based oil company recently approved a 17% dividend increase year over year gives us a clue. Despite a net loss incurred during the last quarter, the company's cash flow provided by operating activities increased by 10%. Suncor's upstream production hit a new quarterly high due to the addition of a new production facility, along with other general good news with the company's operations. Suncor's current dividend yield stands at 3.87%.

Canadian Natural Resources

Last December, Canadian Natural announced a 20% drop in capital spending for 2019 compared to 2018. The news was well received by investors and the company's stock price climbed by almost 4% on the day the news broke.

The oil company doesn't plan on slowing down growth, though, noting a potential increase in takeaway capacity — or the ability to get oil out of the production areas. Less capital spending and a potential increase in takeaway capacity (which could affect earnings) is a good sign for dividend investors.

Fortunately, CNQ has even more tricks up its sleeve. The company bet on an offshore exploration block in South Africa back in 2013. CNQ recently announced that its partners in South Africa reported a "significant gas condensate" discovery. If this project pans out, it could help the company's growth for years to come.

Similar to Suncor, CNQ has a strong history of paying and raising its dividends. The company has increased its dividend payouts by more than 150% over the past five years. CNQ currently boasts a dividend yield of 3.89%.

Investor takeaway

Canadian Natural and Suncor have both taken a beating on the market over the past 12 months. It will be interesting to see how each attempts to rebound in 2019. Despite CNQ currently offering a higher yield, Suncor has proven its ability to pay and raise its dividends even when posting net losses.

Suncor has been increasing dividend payouts at a higher rate than CNQ. Suncor has not decreased its quarterly dividend payouts since at least 2009. For these reasons, I would currently give a slight edge to Suncor.

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