



Better Buy: Suncor Energy (TSX:SU) or Imperial Oil (TSX:IMO)?

Description

Although the sector has been beaten up pretty severely over the last few years, it's probably a good idea to have at least one energy company in your portfolio.

There are two ways you can get exposure to the energy space. You can gamble on a small-time oil producers' shares, which offer significant upside potential. These small producers could easily see their shares double, triple, or even more if the price of crude cooperates.

The problem with that strategy is these companies also come with significant bankruptcy risk. There's a very real chance an investment could go to zero.

The safer way to get access to the sector is to buy a large integrated energy producer, one with significant downstream assets. These produce much steadier earnings, making it a safer investment. The trade-off is, such an investment won't perform as well as a small producer if oil recovers.

To me, it's a no-brainer. The safe investment should win every time.

With that in mind, let's compare two of Canada's steadiest oil companies, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Imperial Oil** ([TSX:IMO](#))(NYSE:IMO).

Asset comparison

After selling off conventional oil assets, Imperial Oil is now 100% focused on production from the oil sands. Between its three main assets in the region — including a joint venture with Suncor with Syncrude — the company produces about 400,000 barrels of oil each day.

Imperial's downstream assets include three refineries — two which are located in Ontario, with the third in Alberta — as well as a rail transport terminal located in Edmonton. The company also supplies gasoline to nearly 2,200 Esso and Mobil stations across Canada and is Canada's largest jet fuel supplier. Imperial also is a major asphalt producer.

Suncor has a similar asset mix, with significant oil sands production, a large downstream business, and its own fleet of service stations. But Suncor has some other assets as well, including a growing offshore drilling program in Europe, a wind power division, and an ethanol plant.

Growth potential

Imperial Oil has the edge in the short term, with plans to grow production from both its Kearl and Aspen oil sands projects. Total production is expected to rise some 15% in the next couple of years.

But Suncor likely has better long-term growth potential. It has two new oil sands projects planned. Lewis, which is expected to start construction in 2024, could produce up to 160,000 barrels of oil per day. And Meadow Creek could produce up to 80,000 barrels per day.

Dividend and shareholder rewards

Both Imperial Oil and Suncor have delivered decades of consistent dividend growth. Imperial Oil has increased its quarterly dividend 24 years in a row, while Suncor is just a little behind with its 17 years of consecutive dividend increases.

Suncor comes out slightly ahead when we consider current yield. Imperial's payout is currently 2.1%, while Suncor's 3.7% dividend is almost double Imperial's payout, although the former does have a lower payout ratio.

Suncor has also been a consistent cannibal of its own shares, doing significant share buybacks in 2011-14, and 2017-18. Another \$2 billion has been put aside for share buybacks this year. Imperial has been getting into the share-buyback game lately, repurchasing approximately 4% of its outstanding shares in 2018.

In terms of total shareholder return, Suncor is the clear winner. It has a history of returning more capital to shareholders, both via dividends and share buybacks.

The bottom line

Both Suncor and Imperial are among the best oil companies in Canada. Their diverse portfolios make them obvious choices for investors looking for exposure to the sector. You'd likely be satisfied owning either one of these great companies.

But if you forced me to choose one over the other, I'd go with Suncor. I like Suncor's downstream business and its greater expansion potential. And shareholders have to love those aggressive share buybacks and the solid current dividend.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date

2025/08/22

Date Created

2019/03/18

Author

nelsonpsmith

default watermark

default watermark