Suncor Energy (TSX:SU) vs. Canadian Natural Resources (TSX:CNQ): Which Energy Kingpin Is the Better Buy?

Description

Suncor Energy (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are arguably the two best energy plays in Canada's oil patch.

Both firms are not only well capitalized with reliable dividends, but each name has substantial upside should the headwinds facing Alberta gradually subside over time. Moreover, both firms have been taking advantage of opportunities in the space such that once Western Canadian Select (WCS) prices inevitably creep higher, the stocks of both companies may experience a sudden correction to the upside.

In this piece, we're going to have a look at both companies and see which one offers the better bang for your buck at today's valuations.

Suncor

Suncor is Warren Buffett's horse for betting on the ailing Albertan oil patch. The company has impeccable integrated operations that have enabled Suncor to have one of the most resilient operating cash flow streams in the entire industry.

Suncor's pristine balance sheet, solid dividend track record, and relatively low payout ratio (currently at 60.7% TTM) allows management enough financial flexibility to take advantage of further acquisition opportunities, additional dividend hikes, or share repurchases, all of which seem like smart moves as the Albertan oil patch remains quiet.

Once the industry environment improves, we could see Suncor really turn on the taps, but in the meantime, Suncor will remain a dormant tiger that's waiting for the opportune time to pounce. With one of the best fundamentals in the oil patch, the name is also relatively insulated from further weakness in Canada's fickle energy scene.

The dividend, currently yielding 3.92%, is probably one of the most robust in the oil patch, and given the downside protection you're getting with Suncor over its inferior, poorly capitalized peers, the stock trades at a slight premium. At the time of writing, Suncor trades at 1.6 times book and 1.8 times sales, both of which are slightly higher than the five-year historical average multiples of 1.3 and 1.6, respectively.

In the case of Suncor, you're paying up for the crème-de-la-crème of Canadian energy stocks. It's a wonderful company at a fair price, precisely the type of business that Buffett seeks.

Canadian Natural Resources

Canadian Natural is my second-favourite firm in the Canadian energy sector. Like Suncor, the company is a well-capitalized cash cow that has the ability to "protect shareholders" from the rough waters in Alberta's oil patch.

On the cash flow front, the board is going to continue along with its 50/50 debt reduction and share-repurchase strategy using its free cash flows. It's management's desire to reduce its debt to $15 billion, but as shares continue to exhibit tremendous value, I think it's a very wise decision for management to commit to buying back its own shares.

Given management is committed to rewarding shareholders through these tough industry-wide times (both through consistent dividend hikes and share repurchases), I find Canadian Natural to be a low-risk bet for long-term thinkers who are looking to dip their toes back in Canada's energy sector.

At the time of writing, CNQ shares offer a slightly higher yield of 4.16%. The stock trades at just 11.9 times forward earnings, 1.4 times book, 2.0 times sales, and 5.2 times cash flow — that's cheap for the calibre of business you're getting.

And the better buy is?

Both stocks are a great value at today's valuations, but if I had to choose one, I'd have to go with Canadian Natural Resources.

The stock's a tad cheaper than Suncor on a price-to-cash flow basis. I'm also a huge fan of management's steadfast devotion to its shareholders and its 50/50 free cash flow-allocation program. Given the stock is close to the cheapest it's been in recent memory, I think the share buybacks are a genius move that shareholders should applaud.

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