



2 Top Energy Stocks to Power Your Portfolio

Description

The energy industry is one of the biggest and most important industries in the world. Despite recent trouble in the commodities markets, and a Canadian oil environment that is less than favourable, there are still opportunities for investors in Canada.

Since energy is so important to our way of life, exposure for investors is essential. Currently, one of the best and safest ways to get into the energy sector is to own an integrated company.

Previously, I wrote about the importance of having an integrated oil and gas company in your portfolio for exposure to the industry, with reduced exposure to commodity prices. I highlighted how although **Husky Energy** had a decent business [structure](#), I was passing on it because I thought some of its peers had better assets and were positioned similarly.

The two integrated energy companies I think could warrant an investment today are **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) and **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)).

Cenovus

Cenovus is a high-quality, leading player in the oil sands. It has the majority of its production in the oil sands, roughly 345,000 barrels a day. The company's current total production is about 445,000 barrels a day. In addition, Cenovus also has almost 250,000 barrels a day of net refining capacity.

It's been mainly focused on paying down debt, trying to get net debt down to its goal of \$5 billion. At the end of the second quarter, net debt sat just over \$7 billion.

The debt reduction is being slightly accelerated as the company reduces its capex, which is giving it more free cash flow to pay down the debt.

It's a leading company in steam-assisted gravity drainage (SAGD) production, while also having some of the lowest costs by having efficient asset operations.

SAGD is the new low-cost technology of getting oil out of the ground by pumping steam into the ground. This is one of the main reasons the company has been able to reduce its costs in the oil sands by nearly 45% since 2014.

It pays a \$0.05 quarterly dividend, which currently yields around 1.8%. Cenovus has been range bound the last few years and is currently sitting in the bottom half of its 52-week range, getting close to a good entry point for investors.

Suncor

Suncor is always a favorite among investors, both foreign and domestic. It's slightly larger than Cenovus and has about 940,000 barrels per day of production capacity, of which 600,000 is heavy oil.

In addition, it has roughly 460,000 barrels a day of refining capacity and 1,750 retail sites. This has helped to diversify operations even further.

The vertical integration and assets of Suncor puts it in a prime position, which is why it's one of the best investments in the energy sector.

It needs roughly \$45 WTI to have funds from operations (FFO) break even, including sustaining capital and dividends. That's a reasonably low break-even price, highlighting Suncor's competitive advantage in the sector.

FFO has been growing and consistently exceeds sustaining capital and dividends, even as the company has been raising both in last few years. It's been increasing the dividend for the last 10 years, and on top of that, it has a history of opportunistic buybacks.

The company is in a solid financial position with 1.6 times net debt to FFO and 30% total debt to capitalization.

Suncor estimates about 800,000 barrels a day of production in 2019 — more than half coming from oil sands. It also estimates roughly 500,000 barrels per day of product sales through its retail stores.

Suncor has stated it intends to increase the percentage of cash being returned to shareholders. In the second quarter, it returned roughly 40% of FFO to shareholders, through dividend payments and share repurchases. It has indicated though, that soon it will be targeting 50% of FFO to be returned to shareholders.

Currently, the \$0.42 quarterly dividend yields nearly 4.5%. It's near the bottom of its 52-week range and is looking quite valuable at these prices.

Bottom line

Whether it's Cenovus or Suncor, both companies will reward long-term investors who have the patience to wait. Furthermore, given the ongoing global trade concerns impacting the price of oil, a further buying opportunity may be forthcoming.

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