Cheap Stock Alert: Should You Buy Suncor Energy (TSX:SU) or Canadian Natural Resources (TSX:CNQ)?

Description

The recent uptick in energy stocks has investors wondering which oil and gas companies might be the best stocks to buy right now to benefit from additional gains.

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Let’s take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) to see if one deserves to be in your portfolio.

Suncor

Suncor generated $3 billion in funds from operations in Q2 2019, setting a second-quarter record for the company. Operating earnings came in at $1.253 billion, or $0.80 per share, compared to $1.19 billion, or $0.73 per share, in the same period last year.

Total upstream production was 803,900 barrels of oil equivalent per day (boe/d) compared to 661,700 in Q2 2018. The ramp up of the new Fort Hills and Hebron facilities in addition to reduced planned maintenance at oil sands operations drove the higher output.

Operating cash costs per barrel improved to $27.80 from $28.65, so things are moving in the right direction on the efficiency side of the business.

Suncor raised the quarterly dividend from $0.36 to $0.42 per share earlier this year. The nearly 17% hike is rare in the energy sector these days and demonstrates the strength of Suncor’s integrated business structure that includes refining and retail operations as well as the vast production facilities.

The board has increased the payout for 17 straight years.

Suncor is also buying back up to $2 billion in stock under the current repurchase program.

The share price is up from $37 in August to $42 per share but still sits well below the $55 it reached in the summer of 2018. An extension of the recent oil rally through 2020 could quickly push the shares back toward that level.

In the meantime, investors can pick up a solid 4% yield while they wait for the market to recover.

Canadian Natural Resources

Canadian Natural Resources is another giant in the Canadian energy sector with a market capitalization of $33 billion.

CNRL has production assets that span the hydrocarbon product spectrum, including oil sands, conventional oil, offshore oil, natural gas, and natural gas liquids.

Second-quarter production came in at 1.03 million boe/d, which was in line with Q1 and down slightly from the same period in 2018. Adjusted net earnings in the quarter improved by $204 million compared to Q2 2018, coming in at $1.04 billion, partly driven by an 8% reduction in operating costs.

CNRL has a strong balance sheet and isn't afraid to make big acquisitions when strategic opportunities come up for sale. This was demonstrated earlier this year when the company bought **Devon Energy's** Canadian assets for $3.2 billion.

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CNRL raised its quarterly dividend from $0.335 to $0.375 when it reported Q4 2018 results. The 12% increase is in addition to share buybacks and debt repayments as part of the company's balanced use of free cash flow.

Natural gas prices remain weak, but CNRL's flexible capital program enables the company to shift development funds to the highest-return opportunities across the asset portfolio.

The stock bottomed out at $30 in August and is back up to $36 per share. Last year, it traded as high as $48, so there is some nice upside potential when energy prices move higher.

Investors who buy the stock today can pick up a yield of 4%.

The bottom line

Suncor and CNRL pay attractive dividends that should continue to grow at a steady pace. Both stocks appear cheap right now and deserve to be on your radar for a dividend-focused portfolio.

Suncor is likely the safer bet due to its integrated business model. CNRL carries more commodity risk but likely offers better upside torque when oil and gas prices increase.

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