



## Is Suncor (TSX:SU) Still the Best Canadian Integrated Oil Company?

### Description

The integrated oil companies in Canada have been some of the only energy exposed companies that have been worthwhile to invest in over the last few years, besides pipelines.

The smaller pure-play oil and natural gas producers, who have no say in the price of the commodities they sell, have really felt the brunt of the problems in the Western Canadian energy sector.

After last week's Keystone pipeline spill in North Dakota, there are talks that the pipeline, which carries nearly 600,000 barrels a day of Canadian crude to U.S. refineries, could be shut down for at least a week and possibly longer, which would severely impact the differential in Canadian and American oil prices

Several smaller companies lost a lot of market value last week, as the uncertainty grows, and Canadian oil producers are already suffering a great deal.

The integrated companies have performed well, though, and if the pipeline shut off does last and widens the differentials, the midstream businesses could thrive in the environment.

Last week, two of the top integrated companies, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) reported earnings, so let's take a look at which company has been performing better.

### Suncor

Suncor has long been the frontrunner when it comes to integrated oil companies in Canada. It has some of the best upstream assets, solid midstream refineries to hedge the business, roughly 1,750 retail sites to give it full vertical integration, and, on top of all else, it's extremely well run.

It has been managing the mandatory curtailments in Alberta really well by producing higher-value oil to capture a greater profit margin. Since Suncor has a diverse mix of crude assets and projects, it has the flexibility to strategically allocate production from one region to another.

It continued its share buy backs in the quarter, buying back roughly 1.2% of the shares outstanding in addition to paying the dividend, which currently yields roughly 4.2%. Suncor did all this while using just 53% of the funds from operations it generated.

The proof of Suncor's incredible operations is in the numbers. It has consistently grown its profitability and margins, it finds new ways to grow its business, and it continues to increase its dividends each year, now with 17 consecutive years of dividend increases.

It's one of the best companies in one of the safest and most stable energy sectors in Canada, and its impressive operational expertise and competitive advantage over its peers are just a few of the reasons why the world's greatest investor, Warren Buffett, owns shares.

## Cenovus

Cenovus has had its fair share of issues to deal with the last couple years, but it has shown how resilient and flexible it can be.

While its upstream segment, which produces roughly 450,000 barrels of oil equivalent per day (BOEPD), and its midstream segment, which refines roughly 240,000 BOEPD, are significantly less than Suncor's capacity, its profitability and operational excellence is very similar.

Cenovus is obviously a much smaller company, but its scale is just as strong as Suncor, and with its solvent-aided process technology giving it plenty of future growth opportunities, the company is a wonderful pick for [long-term investors](#) willing to wait it out and capture the full fair value of Cenovus.

Its five-year plan to increase earnings and cash flow through improved profit margins and more disciplined capital spending looks promising, as Cenovus expects to generate nearly \$11 billion in free funds flow over the next half decade.

Couple that with its improved balance sheet management and attention to its debt levels, reducing its leverage considerably, and the company looks like it's in prime position going forward.

Cenovus also returns cash to shareholders in the form of a dividend that yields roughly 2.2%. The dividend is a nice bonus, but investors buying shares of Cenovus are doing it for its long-term value.

## Bottom line

Both companies offer investors income and stability as well as the potential for growth down the line, when the sector rebounds.

While Suncor is still the outright better company, Cenovus has made great strides to put itself in the conversation, and given the general weakness in Cenovus stock over the last few years, that could make it the better investment today.

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2. Energy Stocks
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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
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