2 Oil Producers With the Brightest Prospects in 2020

Description

Many oil producers in Canada are holding in abeyance spending plans in 2020. With the congested pipelines, Alberta was left with no choice but to curtail production last year. **Imperial Oil** and **Husky Energy** are saying the curtailments have distorted market conditions. Hence, both companies are staying put.

However, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) or CNRL and **Suncor** (TSX:SU)(NYSE:SU) are pushing through with spending this year but with caution. Despite the government production limits and full pipelines, these two big oil producers are confident of thriving in a weak market.

Massive cash flow

CNRL expects to spend $4.05 billion in 2020, which is $250 million more than the spending in 2019. The company also paid $2.8 billion to buy the assets of Devon Energy last year.

This $49 billion oil and gas E&P company operates not only in Western Canada but in the United Kingdom North Sea and offshore Africa. It plans to add 60 drilling locations across Alberta and put three more additional rigs to work this year.

One thing going for CNRL is its massive cash flow. The company uses the cash flow to pay down debt and buy back shares. Also, its current operating margin of +23.06 and its gross margin of +23.91 indicate that it's generating significantly more profit (net of expenses) compared with market peers.

CNRL has a healthy balance sheet. It has the financial muscle to spend on projects that could enhance margins. The 3.57% dividend the stock pays today is sustainable, given the payout ratio of less than 50%.

Focus on value

Suncor expects to spend between $5.4 billion and $6 billion in 2020. The company is allocating a higher budget for the adoption of digital technology and the reduction of greenhouse gas emissions.

Also, the company plans to concentrate on projects with higher yields, immune to volatile commodity prices, and with no pipeline constraints. The focus is on value rather than volume. Its ultimate goal is to achieve its $2 billion incremental free funds flow target by 2023.

Just like CNRL, Suncor has a healthy balance sheet plus a robust asset base. This $65 billion energy giant can forego of volume growth in the meantime. The 68.5% institutional ownership in the stock indicates the confidence of large financial organizations and pension funds in Suncor.

For retail investors, the 16-year dividend-growth streak as well as the dividend-growth rate of 14.55% over the last five years is the convincing reason to hold the stock. Its 3.95% dividend is likewise sustainable, as the payout remains in check at 51%.

Ready for the challenges

Canadian Natural Resources and Suncor remain the dominant oil companies amid uncertain conditions and industry headwinds. Both companies are executing well in so far as the respective acquisitions are concerned.

More importantly, these two oil giants are shareholder friendly, pay decent dividends, and buy back shares. Should oil prices rise, analysts are predicting CNRL and Suncor to increase by 30.5% and 34.5%, respectively, in the next 12 months.

You have the option to invest in two of the country’s biggest oil producers that have the confidence to overcome the difficult challenges ahead.

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