



Suncor Energy (TSX:SU) or Imperial Oil (TSX:IMO): Which Stock Looks Better?

Description

Top energy stocks exhibited notable weakness recently, as crude oil plunged after an outbreak of coronavirus in China.

Integrated energy stocks such as **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Imperial Oil** ([TSX:IMO](#))([NYSE:IMO](#)) fell more than 8% each in the last two weeks. The recent plunge brought down Suncor stock from its nine-month high, while Imperial stock was trading at its highest levels since September. Importantly, are these energy names attractive after this drop? Let's take a look.

Volatile oil and gas prices have battered the energy sector at large in the last few years. The sentiment for the future does not look too encouraging at the moment. Oil exploration and production companies are generally at higher risk when the crude oil prices collapse. But integrated stocks are generally well placed, as they operate all over the energy supply chain. They have relatively less-direct exposure to oil and gas prices compared to upstream companies. Notably, when oil prices plummet, their refining margins increase, partially making up the weakened upstream performance.

Earnings

Suncor Energy is planning to release its Q4 earnings on February 5, while Imperial Oil will release on January 31, 2020. Their upcoming earnings will likely be the big trigger for these stocks in the short to medium term.

For the nine months ended September 30, 2019, Suncor Energy reported earnings of \$3.57 billion. That represents a fall of almost 4% compared to the same period last year. The management attributed lower earnings to weaker business environment driven mainly by lower crude oil price realizations and lower refining margins.

In comparison, Imperial Oil's earnings increased to \$1.92 billion for the same period. That was an increase of almost 35% compared to 2018. Higher volumes during Q3 uplifted its earnings from the upstream segment.

For 2020, Suncor Energy aims to invest in high-return projects that are independent of oil price swings. It expects 5% higher production this year compared to 2019.

Attractive valuation

The most celebrated investor, [Warren Buffett, owns almost 1% in Suncor Energy](#). His investment in the stock could change energy investors' sentiment to some extent. The renowned value investor picked this integrated energy company during the weakness in 2018.

Suncor Energy stock is currently trading at a P/E (price-to-earnings) valuation of 13 times its trailing 12-month earnings. At the same time, Imperial Oil stock is trading at a valuation of nine times its last 12-month earnings. Thus, both these integrated energy stocks do not look expensive at the moment compared to broader markets. However, [Imperial Oil stock seems relatively better placed](#) compared to Suncor based on historical earnings.

Notably, both these stocks have a long history of dividend payments. Suncor Energy has increased its dividends for the last 17 consecutive years, while Imperial Oil has increased it for the last 24 consecutive years. Consistent dividend increases generally play a big role in driving investors' returns over the long term. Suncor has the edge when it comes to yields. It offers a dividend yield of almost 4%, while Imperial Oil yields 2.6%. Dividend yield is calculated as the company's annual dividends divided by its current stock price.

Conclusion

In a nutshell, energy markets could remain shaky in 2020. However, integrated energy stocks could be relatively better due to their downstream operations. Both Suncor and Imperial Oil look well placed from an earnings and valuation perspective. However, Suncor's higher production, downstream assets, and a higher dividend yield provide an edge.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise

5. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date

2025/07/19

Date Created

2020/01/28

Author

vinitkularni20

default watermark

default watermark