



Oil Crash: The 2 Safest Canadian Energy Stocks Now Have Yields up to 13%

Description

The oil crash that followed the breakdown of OPEC+ has [hit Canadians hard](#). Not only have oil stocks, which are significant holdings in various Canadian equity funds, collapsed. But the loonie has also lost a considerable amount of ground relative to the greenback over the past few weeks. That makes this coronavirus crash that much harder for Canadians to deal with.

Moreover, plunging oil prices have had a domino effect, tumbling many other major sectors of the Canadian economy, including the Canadian banks, which could soon see more bad loans over the coming months.

Oil crash: Energy stocks look toxic

The safest energy stocks look toxic these days — even the most resilient integrated behemoths with their stellar balance sheets. As the lights go out on the oil patch, even the kings in the patch could go down with the ship, regardless of how stellar their balance sheets are.

Many of Canada's energy darlings are crumbling, and their dividends are swelling. But should you touch any of the energy names, even the highest-quality ones? Or should you throw in the towel on the sector entirely?

Let's look at the two of the highest-quality energy players out there to see if their artificially high dividend yields are worth picking up amid the oil crash.

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is Warren Buffett's preferred way to play the oil sands. And after Suncor shares crashed over 60% year to date, it's apparent that not even the greatest investor of our time can get completely blindsided.

Buffett has a long-term investment horizon. However, given the magnitude of the damage and the

implications of the Saudi-Russia price war, I'd say this is another one of Buffett's rare strikeouts. And if you followed him into the name, you're probably licking your wounds with shares now sporting a 10.4% yield.

Suncor may be a king among men in the oil patch, but not even its integrated operations and strong balance sheet will be able to deal with an oil crash that could bring sub-US\$20 WTI prices. As such, I'd avoid Suncor, because, frankly, you likely already have enough exposure to oil with the loonie and various energy names sprinkled in passive-investment products.

Canadian Natural Resources

Canadian Natural Resources ([TSX:CNQ](#))([NYSE:CNQ](#)) is arguably the king of the oil sands following its prior acquisition of Devon Energy's Canadian assets last summer.

The deal was a real bargain, or so many analysts thought. That was until the latest oil crash. All of a sudden, that deal wasn't so cheap after all. With \$22.5 billion in total debt on the balance sheet and a minimal amount of cash, I'm starting to doubt the safety of the dividend, even though it's currently well covered by operating cash flows.

Whenever you've got a +13% dividend yield, you've got to question its longer-term sustainability. Unfortunately, if oil retreats to US\$20, I find that it's going to be tough for CNQ to continue shielding its investors from a horrid industry that's essentially suffering a worst-case scenario.

As such, I'd avoid CNQ, because most Canadians are already heavily exposed to the sector that's lacking in catalysts. CNQ is a dirt-cheap stock at less than 0.5 times book and 3.3 times EV/EBITDA, but with such limited visibility into the hazy future of the oil patch, I'd avoid the name.

Foolish takeaway on the oil crash

Suncor and Canadian Natural have fallen hard on the latest oil crash. While they reek of value, I'd argue that their shares could continue to tumble as WTI prices fall further. The dividends of both companies are safe for now, but that could change as the light dims on the entire industry.

As I suggested in my [prior piece](#), Canadians should seek to limit their exposure to the oil patch. They can do this by rotating into names that have a better chance of recovering from a coronavirus-induced recession.

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