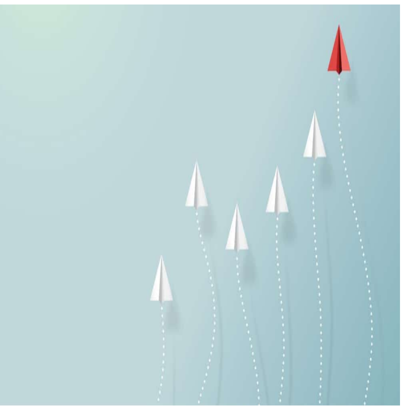

Oil Stocks: Is Canadian Natural Resources (TSX:CNQ) or Suncor (TSX:SU) a Buy?

Description

Oil stocks can't seem to catch a break. The COVID-19 crisis and the war on the price of oil have led to a 48% drop in the price of West Texas Intermediate (WTI) – the benchmark for oil in North America. Unfortunately, the news is even worse for producers exposed to Western Canadian Select (WCS) prices.

WCS typically trades at a discount to WTI and the recent sell-off has magnified the discount. As of writing, WCS is trading at $10.11 per barrel. This is a discount of more than 50% to the price of WTI, which is currently trading at $22.63 per barrel. Year-to-date, WCS has dropped by approximately 74% and is trading at levels not seen in decades.

At these prices, very few Western Canadian oil companies are profitable. The threat to the industry is real and only the fittest will survive. With that in mind, there are only two oil stocks worth considering – **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) and **Suncor** (TSX:SU)(NYSE:SU).

Top dividend paying oil stocks

The impact of low prices on oil stocks is starting to take its toll. Several industry players with high yields are slashing their dividends. Some more than once.

Although Canadian Natural and Suncor are also at risk of a dividend cut, they are better positioned than most. As Canadian dividend aristocrats they have shown a commitment to maintaining their dividends. Canadian Natural owns one of the longest dividend growth streaks in the country, at 19 years. Suncor is not far behind with a 17-year streak.

At this point, payout ratios are basically irrelevant. They are based on historical data, and we know that cash flows and earnings will drop.

Significant flexibility

As some of the country's largest oil stocks, both have significantly more flexibility than others to weather the current downtrend.

As an example, Canadian Natural is reducing capital expenditures by $1.09 billion and halting share buybacks. The moves will allow this oil stock to sustain its dividend and provide it with additional flexibility. More impressively, the cutbacks will not impact production.

For its part, Suncor's downstream operations help insulate the company from a low oil price. Suncor has a network of over 1,750 gas stations and 300 wholesale sites throughout Canada operating under the *Petro Canada* brand. Thanks to this diversification, it remained cash flow positive during the last oil bear market.

These oil stocks also happen to be some of the lowest cost producers in the country. Approximately 60% of Canadian Natural's production is exposed to higher margin synthetic crude and light oil prices. As such, it is still cash flow positive at these prices.

At the mid-range, Suncor expects its Oil Sands and Fort Hills segments to have cash operating costs of $19.20 and $19.00 per barrel respectively. Considering this, Suncor is still cash flow positive at today's prices.

Likewise, approximately 50% of the company's capital expenditures are geared toward growth projects. Although there has been no announcement yet, expect these projects to be scaled back to conserve capital. It is only a matter of time before Suncor announces a revised capital outlook.

At today's bargain prices, Canadian Natural and Suncor are the two companies best positioned to ride out the current price war and COVID-19 headwinds. When times are tough, the best course of action is to invest in the best-of-the-best oil stocks.

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