Market Crash: Is Suncor Energy (TSX:SU) or Enbridge (TSX:ENB) Stock a Buy Now?

Description

The 2020 market crash hit the energy sector harder than most other industries.

Recent strength, however, has contrarian investors now wondering if this might be the right time to buy oversold producers or the energy infrastructure companies.

Oil rout

West Texas Intermediate (WTI) oil traded for US$63 per barrel in January shortly after the United States killed one of Iran's top military leaders. The main concern, at that point, was the threat of war in the Middle East.

The emergence of the coronavirus in China changed the focus of government leaders and energy traders. Oil initially slipped on fear the economic downturn in China would hit the country's demand. With the epidemic's spread, global economic activity is slowing and international oil demand is down 25%.

To make matters worse, Russia and Saudi Arabia ended their pact to limit supplies. A price war has emerged with production actually increasing while demand plunges. This led to WTI oil hitting a recent low near US$20 per barrel.

Talk of a potential truce helped drive oil prices higher late last week. At the time of writing, oil is pulling back again and trades at US$26.

Canadian oil producers rallied in recent days on the bounce. Contrarian investors who had the courage to buy **Suncor Energy** (TSX:SU)(NYSE:SU) around $15 in March are sitting on decent gains. The stock trades at $23 and provides a dividend yield close to 8%.

Energy infrastructure stocks are also off the March lows. **Enbridge** (TSX:ENB)(NYSE:ENB) bottomed out around $34 per share and currently trades above $40. It was at $57 in February. Dividend investors can get an 8% yield from this stock as well right now.

Let's take a look at the two energy sector giants.

Suncor

In the event Russia and Saudi Arabia announce a new agreement to significantly reduce oil supply, the price of oil could easily rally back toward US$35-$40. That would shake out the short-sellers and bring bargain hunters into the sector. Suncor traded at $41 in early February, so a jump to $30-$35 wouldn't be a surprise in this scenario.

However, it's possible the OPEC+ disagreement will continue. Even if a deal emerges, the market might react negatively if the size of the cut isn't substantial. Analysts say global storage capacity is nearing 100%, and some pundits see WTI oil as low as US$10 before the pain forces more drastic measures.

Suncor's downstream assets also deserve consideration. Normally, the refining and retail operations provide a decent hedge against falling oil prices. That's not currently the case, as fuel demand fell off a cliff in recent weeks. Airplanes are grounded, commercial trucks sit in parking lots, and consumers are working from home.

On the production side, Suncor and its partners are considering a shutdown of the large Fort Hills project.

Enbridge

Enbridge doesn't produce oil. It simply transports the product and charges a fee for providing the service.

Revenue on the liquids side of the pipelines operations primarily comes from long-term contracts. The natural gas distribution businesses operate in regulated environments. These tend to be relatively recession-resistant. Businesses and homeowners still need natural gas to generate power, keep buildings warm, heat water, or cook food.

Management streamlined Enbridge in recent years and monetized close to $8 billion in non-core assets to shore up the balance sheet. The $11 billion secured capital program should support growth in distributable cash flow over the medium term. As a result, the existing dividend should be safe.

Is Suncor or Enbridge more attractive?

Suncor and Enbridge both appear oversold and could deliver big gains for buy-and-hold investors.

That said, I would probably make Enbridge the first choice right now. The dividend provides a similar yield to Suncor and is supported by a more reliable revenue stream in the current environment.

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