Dividend Stocks: Canadian Natural Resources (TSX:CNQ) vs. Suncor Energy (TSX:SU)

Description

The market crash has provided countless buying opportunities. This is the best time in years to be putting money to work, especially if you're buying dividend stocks.

Two large-cap Canadian stocks have seen their valuations crushed in recent months. Value investors are flocking to two energy producers: **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ).

Suncor stock now sports an incredible 8.3% dividend yield. Canadian Natural has an even higher yield at 8.6%.

Which income stock is a better buy at current prices?

Dividend stocks on steroids

For years, Canadian Natural and Suncor were solid dividend stocks. While they almost always yielded at least 3%, when the stocks dipped, the payouts could move as high as 5%. The current 8% dividend yields are a rare event, marking the highest payouts in history for *both* stocks.

Unfortunately, the juicy dividends aren't a result of strength. In recent weeks, Suncor and Canadian Natural shares have fallen by more than 50%. The culprit is falling oil prices.

At the start of the year, oil prices were above US$60 per barrel. Today, they're closer to US$20 per barrel. As oil producers, Suncor and Canadian Natural are on the front lines of the pain. Their fossil fuel production is now worth *significantly* less. In fact, it's likely that both businesses are racking up major losses on a daily basis.

Suncor and Canadian Natural have breakeven levels well above US$30 per barrel, which means oil prices need to rebound by more than 50% simply so these companies can stop burning cash.

It’s not hard to see why CNQ and SU shares have fallen so much in recent weeks. These slow and steady dividend stocks have become major money-losers. But with the dividend yields now above 8%, is now the time to buy?

Time to buy?

It’s important to know that neither Canadian Natural nor Suncor have ever paid out a dividend that yields more than 8%. Those prospective yields are based on *previous* dividend amounts. For the yields to stand, both companies must reaffirm their historical dividend rates.

I suspect at least one of these stocks will cut its dividend for the upcoming quarter, and the other stock won’t be far behind. Perhaps these companies can limp along for a quarter or two, pretending that their dividends are stable, but with losses piling up, the payouts will eventually reach the chopping block. That’s bad news for dividend investors.

Many value investors will point to other assets that these companies own, including refinery facilities and pipelines. Owning midstream assets is a fantastic way to offset volatility, as margins often run counter-cyclical to oil prices. When commodity prices fall, for example, refinery margins usually rise.

While Canadian Natural and Suncor have diversified business lines to shoulder some of the pain, there’s no arguing that both firms need significantly higher oil prices to remain economically viable.

Who knows what the long-term future is? Perhaps oil prices rebound by the summer, making SU and CNQ stock a clear buy. The dividends, however, likely won’t last until then.

When companies burn cash, they look to fortify the balance sheet any way possible. Suspending stock buybacks is an easy way to do that. Dividend cuts are another no-brainer.

There are some terrific buying opportunities for dividend investors following the market crash, but these stocks don’t fit the bill.

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