Oil Price Recovery: Is Enbridge (TSX:ENB) or Suncor Energy (TSX:SU) a Better Buy?

Description

In the past week, oil prices have been recovering after a serious rout in March. On Thursday, the **Canadian Crude Index** climbed 22% to $11.75, the highest it had been in a week. As of right now, prices are still far below the breakeven point for most Canadian energy companies.

However, we're beginning to see the oil & gas industry sputter back to life. As COVID-19 restrictions are eased and businesses begin to re-open, demand for petroleum will pick up. While it'll still be a long time until the industry fully recovers, we're beginning to see some early reasons for optimism toward oil and gas.

In this environment, two Canadian energy companies stand out: **Enbridge Inc** (TSX:ENB)(NYSE:ENB) and **Suncor Energy** (TSX:SU)(NYSE:SU).

With strong profit margins and decent growth, they've been oases in the desert that is the Canadian oil & gas industry. Due to their solid competitive positions, they're better positioned to recover than most energy companies.

The question is, between the two, which is the better buy?

The case for Enbridge

The biggest thing Enbridge has going for it is that it doesn't need high oil prices to make money. As a pipeline, it makes money from shipping volumes, and its fees are regulated. Shipping oil with Enbridge is far cheaper than shipping by rail–the next best alternative–so the company won't face too much pressure on pricing.

Compared to an energy extraction/marketing company, Enbridge has a lower requirement to thrive. As long as demand for oil is strong, ENB will make money. By contrast, a company that extracts and sells oil needs both the demand and the supply sides right.

This is one of the reasons why Enbridge's earnings have grown steadily over the last four years. That said, demand for oil & gas is quite weak at the moment. If that situation persists longer than expected, ENB could be in trouble.

The case for Suncor Energy

Similar to Enbridge, Suncor Energy has some key advantages over other energy companies. In this case, it's the fact that it operates a complete energy operation from extraction to sale. Suncor's Petro Canada gas stations sell gasoline directly to consumers.

This allows it capture more profit on its sales compared to a company that sells oil to other vendors. Earlier this month, when oil prices turned negative, *gasoline* was never being given away for free. This benefits companies like Suncor that sell their own gasoline.

Another big benefit Suncor Energy has is a strong balance sheet that can carry it through this crisis even if sales are weak. In its most recent quarter, Suncor had $89 billion in assets, $47 billion in liabilities, and a debt-to-equity ratio of just 0.47. Taken together, these metrics suggest a company that can survive a prolonged period of weak sales.

Foolish takeaway

Enbridge and Suncor Energy are two of Canada's best energy companies. Between the two, it's hard to say which one is better. Enbridge stands to benefit more if U.S. demand picks up, while Suncor will fare better if it doesn't, as Enbridge depends heavily on exports, while Suncor doesn't.

Truthfully, a well-diversified Canadian energy portfolio should have both of these stocks.

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