



## Suncor Energy (TSX:SU) or Canadian Natural Resources (TSX:CNQ): Better Buy for Dividend Investors?

### Description

Canadian oil stocks, including **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)), got clobbered this year, with the COVID-19 demand shock that sent oil prices off a steep cliff to depths that some thought was impossible. Oil prices went negative briefly before bouncing back to a new normalized low, with West Texas Intermediate inching just above the US\$30 levels.

While it may seem nuts to invest in Canadian oil sands players amid the [COVID-19 crisis](#), I'd argue that there's substantial value to be had for [contrarians](#) willing to deal with the volatility by going against the grain.

The 2020 oil collapse was unprecedented, but two of Canada's finest oil sands players are now trading at ridiculously low multiples and could be in a position to surge higher over the next few years as the world moves on from the COVID-19 pandemic — one of the worst socio-economic shocks of our generation.

Without further ado, let's take a closer look at the Suncor and Canadian Natural to see which is the better fit for your portfolio:

### Suncor Energy

Suncor Energy is known to have one of the stronger balance sheets in the Albertan oil patch, so it may have come as a huge surprise when the company slashed its dividend by 55%, as it reduced capital spending for a second time amid the COVID-19 crisis.

Could Suncor have kept its dividend fully intact? Sure, but *should* it have? Only time will tell, but given the odds that this new low for oil prices will likely stick around for a longer duration, it may prove to be a good move for Suncor to rip off the Band-Aid sooner rather than later.

Financial flexibility is of utmost importance to effectively navigate through this COVID-19 typhoon —

and shoring up cash with the dividend cut may prove to be a good idea in the grander scheme of things.

Suncor is looking to reduce capital spending by between \$3.6-4 billion this year. With the dividend cut thrown in, Suncor looks to be in a stellar liquidity and solvency positioning, even in the face of a recession.

With a current ratio of 0.81 and a near-optimal 0.54 debt-to-equity ratio, Suncor stands to be one of the few swimmers in the Albertan oil patch that is still wearing trunks as the tide continues to go out.

The stock sports a less-than-impressive 3.4% yield, which is unappealing to income-oriented investors relative to the likes of a CNQ. With shares trading at 0.95 times book, though, Suncor is a pretty cheap way to punch your ticket to a shot at outsized gains in a broader energy rebound.

## Canadian Natural Resources

For those hungry for more income, there's Canadian Natural Resources, which sports a 7% yield at the time of writing, more than double that of Suncor's. Like Suncor, CNQ has made moves to adapt to the perfect storm of industry headwinds. However, unlike Suncor, CNQ has done so without taking its dividend to the chopping block.

Management has made it clear that they'd be willing to do everything in their power to insulate shareholders from the ridiculously volatile (and sometimes unforgiving) industry. By keeping its dividend intact, many Suncor investors will be inclined to jump ship to the Canadian oil king that has far more resilient cash flows than most investors would give it credit for.

While the dividend looks safe for now, I wouldn't consider it bulletproof, especially if oil prices worsen. The dividend commitment has grown quite large, and management may be left with few options if the sector takes another dive.

**Goldman Sachs** recently upped its CNQ price target to US\$25 to US\$22 on lower cost of capital in the sector. CNQ stock is also cheaper than Suncor on a price-to-book basis, at 0.85 times book. CNQ sports a 0.66 current ratio and a 0.68 debt-to-equity ratio, both of which are slightly lower than that of Suncor's.

## And the better buy is?

CNQ looks to be a far better bet for income investors, but the company has slightly worse liquidity and solvency metrics. Suncor has less debt, a more sustainable payout, and may be a better option for investors who seek a wider margin of safety.

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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

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## Author

joefrenette

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