



Forget Suncor (TSX:SU): Earn Big With This Energy Stock

Description

Shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) are under immense selling pressure. Its stock has fallen nearly 48% year to date and is down about 51% from its 52-week high. While [curb on production](#) and the reopening of the economy is lending support to the oil prices, an uncertain economic environment and rising coronavirus cases continue to restrict the upside in Suncor stock.

With the gradual pickup in economic activity and WTI crude prices settling near US\$40 per barrel, Suncor would easily cover all of its operating costs and be able to pay dividends. The company's planned capex reduction for 2020 and cost-control measures have led to a decline in its breakeven cost, which is encouraging.

However, if you are planning to buy Suncor stock because it is trading cheap, think again. The stock has proven to be a lousy investment, significantly underperforming the broader markets. Suncor stock is down about 33% in five years compared to a 12% increase in the S&P/TSX 60 Index. Meanwhile, reduced dividends act as a dampener.

While the operating environment is showing gradual improvement, the pace of recovery remains uncertain. Besides, Suncor's valuation fails to attract. Shares of Suncor Energy are trading at the next 12-month EV-to-EBITDA ratio of 8.2, which more than three times the industry (integrated oil and gas) average. Also, its next 12-month price-to-cash flow ratio is nearly double than the industry average.

I am not indicating that Suncor stock will not grow in the future. However, there are better investment options in the energy sector that can generate higher growth and offer very high dividend yields.

A better buy

While the energy space is badly hit amid the pandemic, pipeline companies offer stability and growth. **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) is my top investment choice.

The market selloff didn't spare Enbridge stock either as the lower mainline throughput volumes are likely to affect its revenues. Enbridge stock is down about 21% year to date, which presents a good

entry point. Investors should note that Enbridge operates a low-risk and diversified business that makes it relatively immune to the volatility in commodity prices. Besides, the decline in its stock has driven its yields higher.

The pipeline company's cost-of-service arrangements and take-or-pay contracts account for the majority of its adjusted EBITDA and mitigates the negative impact of lower volumes in its mainline system. Moreover, Enbridge's competitive positioning and the contractual framework should support its cash flows in the future. The company also runs a renewable power business, which adds about 5% to its EBITDA and generates predictable cash flows.

The company is a Dividend Aristocrat, and with its dividends increasing at a compound average annual growth rate of 11% in the last 15 years. Its high forward yield of 7.9% is pretty safe. Earlier, the company stated that less than 2% of its cash flows are at risk, implying that its resilient cash flows would easily cover the future payouts.

[Investors should lap up Enbridge stock](#) for solid growth and income.

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