



Better Buy: Suncor Energy (TSX:SU) Stock or Laurentian Bank (TSX:LB) Stock?

Description

The TSX Index is flirting with pre-crisis highs again. It is up almost 50% today from March lows and has made a spectacular comeback through this pandemic.

But stocks like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Laurentian Bank** ([TSX:LB](#)) are still struggling. These contrarian stocks have their fair share of struggles. But are they the stocks that will provide investors with outsized returns going forward? Here, at Motley Fool Canada, we would like to find out.

Let's take a look at which of these stocks is a better buy today.

Suncor Energy stock is the contrarian stock to buy

Suncor Energy is an integrated player in Canada's oil and gas industry. This means that Suncor has exposure to revenue from different parts of the oil and gas value chain. In its production segment, Suncor gets hits when commodity prices are low. But in its refining segment, where crude oil is transformed into more useful products such as gasoline, Suncor benefits as oil prices fall.

This integrated business model offers diversification and somewhat of an offsetting hedge. It is a key strength of Suncor. And it is a key reason why I think Suncor stock has a bright future. Its business model should result in more stable and more predictable cash flows. In fact, it had done this for a very long time.

But then the coronavirus crisis hit. And Suncor Energy was hit by reduced demand for both crude oil and refined products. It was the perfect storm. Suncor was forced to cut its dividend by 55%, and the stock has been languishing. Remember, this was unimaginable not too long ago. Suncor was the celebrated dividend stock that was the pillar of strength.

Today, Suncor stock is trading at \$21.50 at the time of writing. It is down almost 50% so far in 2020. But let's dive deeper. Oil has settled above \$40, and last I checked, is trading at \$42.50. Suncor's dividend was reduced, but the dividend yield is still a respectable 3.91%. And Suncor's free cash flow

remains impressive. Suncor will even be free cash flow positive at oil prices below \$35.

Some of us at Motley Fool believe this to be [a solid contrarian opportunity](#).

Laurentian Bank stock faces a difficult future

Laurentian Bank is one of Canada's regional banks. It has stood out lately for its sky-high dividend yield. But like Suncor Energy, Laurentian Bank was also forced to cut its dividend earlier this year. Its 40% dividend cut in May was extremely notable for Laurentian but also for Canadian banks in general. It was the first dividend cut by a major Canadian bank in almost three decades. I view it as a sign of what may be to come.

Regional banks like Laurentian Bank lack the size, scale, and diversity that the big Canadian banks benefit from. The bank is predominantly located in Quebec, and it serves many small- to medium-sized businesses. Hence, it has a comparatively higher risk profile than the Big Five Canadian banks.

Today, Laurentian is yielding 5.83%. This is pretty attractive. But looking ahead, I see trouble for all Canadian banks, and especially regional banks like Laurentian. The economy is stuck with forced closures. Of course, the government's help has been a saving grace. But people are hurting, even though the government has been throwing significant amounts of money at this problem. And [the banks are facing sky-rocketing loan-loss provisions](#).

The coronavirus crisis hit Laurentian Bank's second-quarter results, as it hit Suncor Energy's results. This is hardly surprising. But if we look a little closer, we will notice that the second quarter was the third quarter that the bank missed expectations. And it was by a lot. The bank reported EPS of \$0.20 compared to consensus of \$0.42, with provisions for credit losses soaring over 268%.

Motley Fool: The bottom line

Suncor and Laurentian Bank are both contrarian stocks. They have both struggled with setbacks. But the bottom line is that I definitely favour Suncor Energy stock over Laurentian Bank stock. Suncor is leaving its problems behind, as oil prices have stabilized. But Laurentian Bank is in the midst of its problems. The coronavirus crisis is ongoing. The upcoming year will see continued economic disruption and credit problems.

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Date

2025/07/04

Date Created

2020/08/21

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