



## Suncor (TSX:SU) or Enbridge (TSX:ENB): Which Energy Stock Is a Better Buy Right Now?

### Description

The equity markets have bounced back quickly despite the rising COVID-19 infections and higher unemployment claims. Moreover, the recent consolidation indicates that the stock market is unlikely to crash despite weak economic data in 2020. Besides, the reopening of the economy and hopes of a COVID-19 vaccine could push the stock market even higher from the current levels.

While the broader markets recovered sharply, energy stocks are still trading low. Lower economic activity and demand-supply imbalance continue to restrict the upside in crude, in turn, the energy stocks. However, as the economic activities have gradually begun to see an uptick, energy stocks could witness a strong rebound from the current levels. Moreover, the long-term outlook for energy favours the bull case.

Given the significant erosion in value, several energy stocks look attractive on the price front. While scanning the energy stocks, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) have caught my eye.

While Suncor's significant price erosion and integrated business model appeals, Enbridge's diversified business and resilient cash flows attract. So, let's focus on these two stocks more closely to decide which is the best energy stock and has a better chance of bouncing back strongly with the uptick in demand.

### Suncor

Shares of Suncor Energy have lost more than 50% of its value this year on account of reduced demand for crude amid COVID-19 pandemic. The company was forced to cut dividends and reduce costs to navigate the crisis. However, the OPEC+ nations' agreement to lower production in April helped in stabilizing oil prices, which nearly doubled from its lows.

While the demand for crude is unlikely to reach the pre-pandemic levels anytime soon, Suncor's

integrated business model and cost-cutting measures are keeping the company afloat. Meanwhile, an improvement in demand is likely to help Suncor in lowering losses and drive growth.

The company's lower breakeven price is comforting as it should help Suncor to cover all of its obligations and dividend payouts with the West Texas Intermediate (WTI) crude at the current levels.

## Enbridge

Similar to Suncor, shares of Enbridge also took a hit from lower oil prices and are down over 16.5% year to date. The decline in demand for oil has taken a toll on its mainline volumes, in turn, its stock.

Nevertheless, Enbridge has a well-diversified business that could mitigate the risk of lower mainline volumes in the near term. Meanwhile, its other profitable businesses and long-term contractual arrangements continue to drive its EBITDA and cover its payouts.

In the [most recent quarter](#), its EBITDA rose by 3%, driven by the improvement across its renewable power generation and gas distribution and storage.

Investors should note that Enbridge's competitive energy infrastructure assets, diversified cash flows, and contractual arrangements position it well to benefit from the recovery in demand. Besides, the company has a stellar history of paying higher dividends, thus boosting investors' returns.

Enbridge's cash dividends have grown at a compound annual growth rate of 11% over the past 25 years and currently offer an [attractive yield](#) of 7.5%.

## Bottom line

The long-term energy outlook remains positive, implying that both these stocks should recover fast as the demand for oil rises. However, I believe Enbridge has a better chance of generating higher returns than Suncor, thanks to its diversified cash flows, strong energy infrastructure assets, and the ability to boost dividends.

While I don't doubt Suncor's fundamentals and growth prospects, I expect it to take a longer to reach the pre-pandemic levels. On the contrary, Enbridge should start witnessing improvement in the mainline volumes in the second half of 2020, which is likely to support the upside in its stock.

### CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks

### TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
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