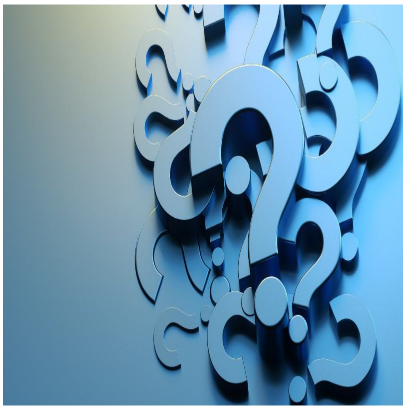
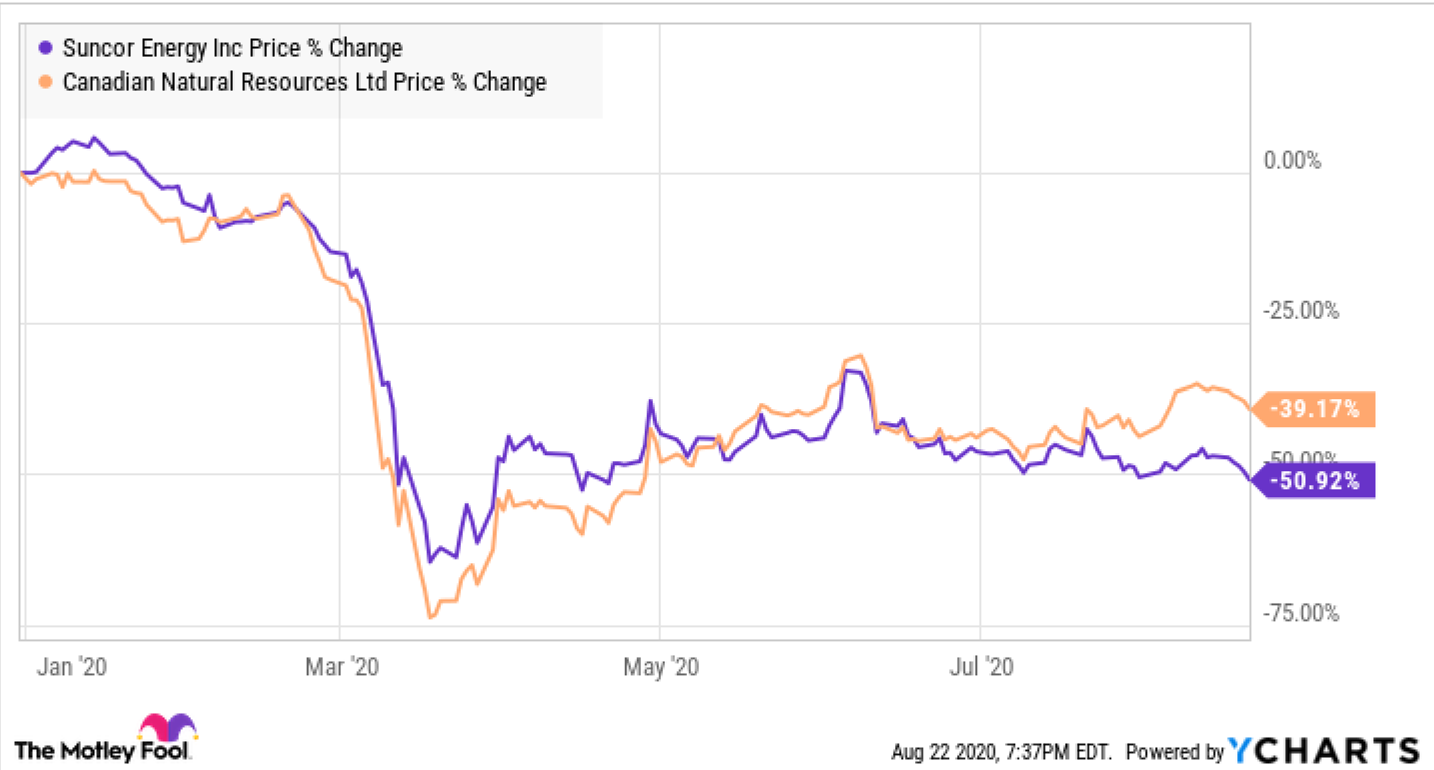


Energy Stock Showdown: Should You Buy Suncor (TSX:SU) or Canadian Natural Resources (TSX:CNQ)?

Description

Suncor Energy (TSX:SU)(NYSE:SU) stock and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) stock used to be viewed as the blue-chip dividend stock duo in the Canadian energy scene until Suncor stock cut its dividend by more than half in May.

As shown in the chart below, both energy stocks have been shaved off meaningfully, year to date. CNQ stock has performed better partly because it has maintained its dividend so far.



SU and CNQ data by YCharts.

Interestingly, Warren Buffett's **Berkshire Hathaway** chose to add to its Suncor stake in Q2 instead of buying another energy stock like CNQ stock. This suggests that Suncor stock can really shine in the energy sector over the next few years.

Dividend safety

At writing, Suncor stock yields 4%. In the trailing 12 months (TTM), it paid out $2.3 billion in dividends. It also had $1 billion of interest expenses. The dividend cut will bring down its annualized dividend obligation to about $1 billion.

At the end of the second quarter, Suncor had $1.8 billion of cash and cash equivalents. Combined with its cash flow generation, Suncor stock should be able to keep its current dividend safe.

Suncor's normalized free cash flow generation should be more than $4 billion. However, the normalization process could take two years. The near term is challenging for Suncor, as illustrated by its TTM free cash flow generation of $747 million.

Canadian Natural Resources stock yields just over 6.6% at writing. In the TTM, it paid out $1.7 billion in dividends. It also paid $900 million of interests for its debt obligation.

At the end of Q2, CNQ had $233 million of cash and cash equivalents. In the TTM, it generated free cash flow of $3.3 billion. Depending on how things develop for the pandemic that directly impacts the near-term energy demand, CNQ may or may not cut its dividend by 2021.

Upside potential

At writing, Suncor stock trades at $20.89. The average 12-month analyst price target on the energy stock is $31.90, which represents near-term upside potential of almost 53%. On a normalized basis, longer term, the stock can double from current levels.

Canadian Natural Resources stock trades at $25.55 at writing. The average 12-month analyst price target on the dividend stock is $32.30, which represents near-term upside potential of 26%. On a normalized basis, longer term, the stock can climb more than 50% from current levels.

The Foolish takeaway

It doesn't help to look in the rear-view mirror and dwell on the recent terrible performance of energy stocks. After all, investing is forward- looking.

There's steadily growing global energy demand over the long term. Suncor stock and CNQ stock should therefore be able to trade at higher levels in the future.

However, the stocks move in tandem. So, it's overkill to own both in one's portfolio.

CNQ currently trades at a premium to Suncor because the former hasn't cut its dividend so far. Consequently, CNQ also has less upside potential than Suncor. Besides, the stressful environment today could lead to CNQ cutting its dividend down the road.

If I were choosing between the two energy stocks today, I'd buy Suncor stock, which has a higher total return potential despite its lower dividend.

CATEGORY

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2. NYSE:SU (Suncor Energy Inc.)
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