Should Suncor (TSX:SU) Stock or Enbridge (TSX:ENB) Stock Be in Your TFSA?

Description

The stock prices of **Suncor** (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB) continue to struggle amid a broad-based market recovery.

Many Canadians have some cash sitting in their TFSA portfolios and are searching for undervalued stocks that might offer a shot a big gains in the next few years. While the energy sector isn't sexy these days, that might make it a good place to search for bargains.

Let's take a look at two of Canada's top stocks in the energy industry to see if one deserves to be on your TFSA buy list today.

Suncor stock

Suncor trades near $21 per share. The stock fell from a high above $45 in January to as low as $15 in March. A brief rally took the stock price above $28 in early June, but the tailwind lost its steam.

Suncor reported rough results in the first half of 2020. The plunge in the price of oil from US$65 in January to briefly negative on futures contracts in April hammered margins. Oil recovered in recent months and currently trades near US$43 per barrel. That's about US$8 above Suncor's breakeven, so the Q3 results on the upstream business should start to improve.

Suncor's refineries and 1,500 Petro-Canada retail locations also took a hit. These businesses typically serve as a buffer against a revenue drop due to falling oil prices, but pandemic lockdowns and travel restrictions caused a sharp drop in fuel demand.

Fuel usage should slowly return to previous levels and the price oil could remain in a US$40-50 range over the next 6-12 months. However, some analysts predict the massive cutbacks in exploration investment could result in tight supplies five years from now. In that situation, oil prices could move meaningfully higher.

Suncor cut the dividend by more than half earlier this year. The current payout should be safe and provides a decent 4% yield.

Enbridge

Enbridge transports a good chunk of Canadian and U.S. oil production to the refineries. The business effectively acts as a toll road and isn’t directly impacted by fluctuations in commodity prices.

This doesn’t mean Enbridge is immune to slumps in the energy market. The company’s oil pipelines saw a drop in volume in the first half of 2020 due to reduced demand for crude oil, putting a dent in revenue.

Enbridge’s other businesses include natural gas distribution utilities and renewable energy assets. These groups continue to perform well and provide a hedge against the dip in throughput on the liquids pipeline network. As a result, Enbridge maintained its 2020 guidance for distributable cash flow when it reported Q2 results.

The stock appears oversold right now. Enbridge trades around $42 per share and provides a 7.7% dividend yield. The payout looks safe and Enbridge should see pipeline volumes slowly move back to near capacity.

Management completed a restructuring before the pandemic hit, so Enbridge entered the downturn with a solid balance sheet and streamlined operations. Low borrowing costs should remain in place for the foreseeable future, giving Enbridge access to cheap funds for growth initiatives or acquisitions.

The bottom line

Suncor and Enbridge both appear cheap today and should trade meaningfully higher in the next five years.

If you only choose one for your TFSA, I would go with Enbridge as the first pick right now. The dividend is better and you get the benefit of a recovery in fuel demand without the direct exposure to volatility in the price of the commodity.

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