Better Buy: Enbridge (TSX:ENB) or Suncor (TSX:SU) Stock?

Description

Enbridge (TSX:ENB)(NYSE:ENB) and **Suncor Energy** (TSX:SU)(NYSE:SU) are two popular energy stocks. Like many other energy stocks, they have been pressured by headwinds, such as the decline in global energy prices and the COVID-19 pandemic.

As the leading North American energy infrastructure company, Enbridge stock has fared better than Suncor and most other energy stocks. The stock has only declined 9% in the past 12 months. In contrast, Suncor stock has been halved in the period.

It's not really fair to compare Suncor and Enbridge, because Suncor is an integrated energy business that's involved with energy production, refining, and marketing, while Enbridge transports, distributes, and stores energy.

However, depending on investors' goals for income or price appreciation and their risk tolerance and investment horizon, they might choose one over the other.

Let's explore which energy stock is a better buy in September.

Recent results

In late July, Enbridge reported its second-quarter (Q2) results. Its trailing 12-month (TTM) revenue fell 13% versus a year ago. However, it managed to improve its EBITDA margin from 23.9% to 25.8%. So, its EBITDA, a cash flow proxy, remained relatively stable by falling less than 7%.

Suncor also reported its Q2 results in July. Its trailing 12-month (TTM) revenue fell 22% versus a year ago. Its EBITDA margin also dropped significantly from 33.7% to 17.7%. This resulted in its EBITDA falling drastically by 59%.

Dividend

Enbridge is a Canadian Dividend Aristocrat with a dividend-growth streak of 24 years. It aims for cash distribution growth of 5-7%, which should lead to dividend growth of about 3% over the next two years, as its payout ratio is a little higher than what it would like. At the recent quotation of $41.23 per share, Enbridge stock offers an attractive dividend of 7.86%.

Suncor stock cut its dividend by 55% in May. This corresponds to the level of EBITDA drop that it experienced, as noted above. At the recent quotation of $18.52 per share, Suncor stock provides a 4.54% yield.

Dividend coverage and financial strength

Based on Enbridge's distributable cash flow estimation for this year, its payout ratio will be roughly 70%. Its financial strength is evident in its current and quick ratios, which are the same as they were a year ago. Enbridge is awarded an S&P credit rating of BBB+.

Based on Suncor stock's outstanding shares of 1.53 billion and its lower quarterly dividend of $0.21 per share, it'd pay out $1,285 million of dividends in a year. The company has been posting net losses for three straight quarters since Q4 2019. However, at the end of Q2, it had $1,846 million of cash and short-term investments.

Suncor still has a strong financial position. Its current and quick ratios are the same year over year. Additionally, it is awarded an investment-grade S&P credit rating of BBB+.

Upside

According to the average analyst 12-month price target of $51.90, Enbridge stock has 26% near-term upside potential. The most bearish analyst thinks it has near-term downside risk of more than 11%.

Suncor stock has 69% near-term upside potential and low near-term downside risk.

The Foolish takeaway

Given the fact that Suncor experiences more volatile profitability, it is a riskier stock investment than Enbridge. However, the former could also deliver greater upside and total returns when the operating environment becomes favourable for energy companies again.

If you seek safe income, it's better to go for Enbridge stock, which provides a bigger yield and a safer dividend.

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1. Editor's Choice

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