



Better Value: Suncor (TSX:SU) vs. Enbridge (TSX:ENB) Stock

Description

The energy sector has been the clear loser of this crisis. With travel across borders restricted and everyone working from home, demand for fuel has fallen off a cliff. Energy giants like **Suncor** ([TSX:SU](#))([NYSE:SU](#)) and **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) have been battered by the crisis. Now, value investors are looking at both Suncor stock and Enbridge stock for contrarian bets.

Here's a closer look at the underlying fundamentals and valuation of both firms.

Prospects

Suncor and Enbridge stocks represent two very different segments of the global energy market. Enbridge is North America's largest energy infrastructure provider. The firm transports and stores energy, while Suncor produces and markets it.

This difference in business models gives the two companies unique risk profiles. Enbridge's business is based on long-term contracts and the value of its hard assets. A network of pipelines across North America should retain its value better despite this crisis. The construction and supply contracts are spread across multiple years, limiting the downside for Enbridge stock.

Suncor, however, is exposed to the market value of oil. A sudden dip like the one we experienced in March, has an immediate impact on Suncor stock. The stock is down 56% year-to-date, compared with a 19.8% decline in Enbridge stock.

Dividends

This difference in business models is also reflected in the cash flows. Unlike Enbridge, Suncor had to take the drastic step of cutting its dividend this year. Suncor stock's dividend is now down from \$0.465 to just \$0.21 – a 55% reduction.

Back in July, my Fool colleague David Jagielski took [a deep dive](#) into the market and came away concerned. He believes the oil price is nowhere near a sustainable level for Suncor. A recovery isn't on the horizon and the company could be forced to cut the dividend yet again in the near future.

Meanwhile, Enbridge has sustained its dividend. In fact, the company has maintained its target of [3% dividend growth](#) over the next few years. At the moment, the payout ratio is 70%, so it's easy to see how Enbridge can meet its target for dividend growth. That means Enbridge stock could preserve its title of Canadian Dividend Aristocrat post-crisis.

Valuation

By traditional measures, Suncor stock seems more undervalued than Enbridge. Suncor is trading at 22% less than book value per share and 8% less than sales per share. The price is also just 33 times free cash flow per share.

However, if the oil price remains suppressed for the next few years, Suncor's earnings could stagnate. If sales and book value are likely to decline in the near future, Suncor stock could be a "value trap."

Instead, Enbridge seems like a safer option. The stock is trading at nearly twice sales value per share and 1.34 times book value. But its dividend is more robust and earnings are more sustainable. The stock even offers a higher dividend yield: 7.5%.

Bottom line

Warren Buffett once said that it was better to pay a fair price for an excellent company than pay a bargain for a mediocre one. In this case, Enbridge stock seems like the clear winner.

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