Suncor Energy (TSX:SU) or Imperial Oil (TSX:IMO): Which Is a Better Buy?

Description

The stocks of the top Canadian energy companies **Suncor Energy** (TSX:SU)(NYSE:SU) and **Imperial Oil** (TSX:IMO)(NYSE:IMO) were notably weak recently. Both have lost more than 20% each so far this month. So, which one looks like a better buy for long-term investors?

Even if energy markets have been extremely volatile in the last few years, it will be rewarding to hold at least one energy stock in your long-term portfolio.

Imperial Oil

Imperial Oil is a $13 billion integrated energy company that operates large oil sand assets and refineries. It also produces and markets various petrochemicals under brand names Esso and Mobil.

Imperial generates more than half of its revenues from downstream operations, and a large chunk of the rest comes from oil production. Driven by lower production amid the pandemic, Imperial Oil reported a significant dent in its financials. It has lost $714 million in the first half of 2020.

Suncor Energy

Calgary-based Suncor Energy is a $26 billion oil and gas company. It operates oil sands, four refineries, and a network of fuel outlets. Suncor Energy also derives almost half of its revenues from refining and marketing operations while the rest comes from oil production. Suncor Energy has taken a deeper hit of the pandemic so far this year, losing approximately $1.8 billion.

Oil production companies are, in general, at a relatively higher risk when the crude oil prices drop. But integrated stocks are comparatively well placed, as they work all over the energy supply chain. They have less direct exposure to volatile crude oil prices compared to upstream companies. Notably, when oil prices fall, their refining margins increase, moderately making up for the lower upstream performance.

Both Imperial Oil and Suncor Energy should see their financials improve post-pandemic. Once economies normalize, crude oil might reach some respectable levels. Also, downstream operations will likely see higher contributions amid higher demand. Importantly, both Suncor and Imperial have breakeven points well below current crude oil prices of around USD$40 per barrel.

Dividends and valuation

Suncor is currently trading at a dividend yield of close to 5%, higher than **TSX** stocks at large. Imperial Oil also offers a yield of 5%. An investment of $10,000 would generate approximately $500 in dividends every year.

What notably differentiates these two is their current valuation. Suncor Energy is currently trading at an EV-to-EBITDA valuation of six times, while Imperial Oil stock is trading close to 11 times earnings. Suncor Energy stock is currently trading at $17, very close to its 15-year lows. It looks attractive from the valuation perspective and could see faster recovery post-pandemic. Suncor's current valuation is way below its historical average as well as against peers' average.

Bottom line

Suncor Energy is a fundamentally strong company and will likely reward long-term investors. The stock might sport above-average volatility in the short term, given surrounding uncertainties. However, given the large downstream operations, a fair yield, and attractive valuation, Suncor Energy looks like a more worthy bet.

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