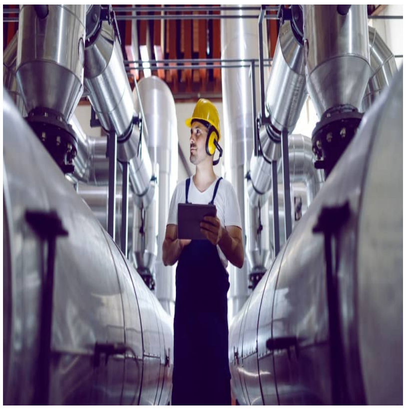

Should You Buy Suncor or Enbridge Stock Now?

Description

Suncor (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB) recently bounced on a jump in oil prices. The strong move could be the start of a new energy rally and investors want to know if Suncor or Enbridge stock is a better buy.

Impact of oil demand on Enbridge's stock price

Enbridge doesn't produce oil. Rather, the company simply moves it from producers, such as Suncor, to their customers or at least part of the way. In normal times, fluctuations in the oil market have limited direct impact on Enbridge's revenue stream. The pandemic, however, is a bit different.

How?

Lockdowns and travel restrictions put a large dent in fuel demand. Airlines around the globe have scrapped planes and cut routes in an effort to survive. In many cases, capacity fell 90% in the past several months compared to 2019. The result is a significant drop in demand for jet fuel, which is made from crude oil. Gasoline demand dropped, as well.

As a result, Enbridge saw throughput fall along its oil pipeline systems. The company moves about 25% of the oil produced in Canada and the United States. During normal times, the oil mainline network runs rear capacity. With COVID vaccines likely on the way in early 2021, the world could start to return to more normal activity by the end of next year.

Enbridge's utility and renewable energy businesses provided a decent revenue hedge this year. In the Q3 earnings report Enbridge also said mainline heavy oil capacity is now fully utilized and the full-year volumes are on track to meet the guidance provided in May.

As a result, 2020 distributable cash flow (DCF) per share is expected to be in the middle of the previous guidance of $4.50-4.80. That should put more confidence in the market that Enbridge's dividend remains safe.

The stock trades near $38.50 per share at the time of writing, putting the dividend yield around 8.4%.

Is Suncor stock a contrarian buy right now?

Suncor normally relies on its refining and retail operations to ride out low oil prices. However, the sharp drop in fuel demand this year hit Suncor across all three of its pillars. This is why the stock fell from as high as $45 in January to $15 in late October.

The bounce in the past few days sent the stock back to $19 and Suncor trades around $18.50 at the time of writing, putting the dividend yield near 4.5%. Suncor slashed the payout by 55% in the spring when it realized 2020 was going to be a tough year.

Recent vaccine optimism resulted in the jump in the price of oil. At US$42, however, Suncor's production assets are not earning much money. In the downstream businesses, Suncor's refineries make jet fuel and gasoline, so demand for those products needs to rise to boost revenue.

The second COVID wave in many developed countries threatens to delay the lifting of travel restrictions. In addition, commuters won't head back to offices until vaccines are widely distributed.

In its latest report, the International Energy Agency (IEA) reduced its forecast for oil demand in Q4 2020 and said the outlook for 2021 remains uncertain. Large stockpiles won't get reduced unless OPEC+ decides to maintain supply cuts implemented earlier this year.

Is Suncor or Enbridge stock a better bet?

Suncor probably offers better upside potential on a rebound in oil prices, but the coming months could see ongoing volatility and fuel demand won't recover for some time. Enbridge gets some protection from its natural gas distribution and renewables businesses and will benefit when crude oil demand improves, so it is positioned better to ride out the storm and pays an attractive dividend.

As such, I would probably make Enbridge the first choice today.

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