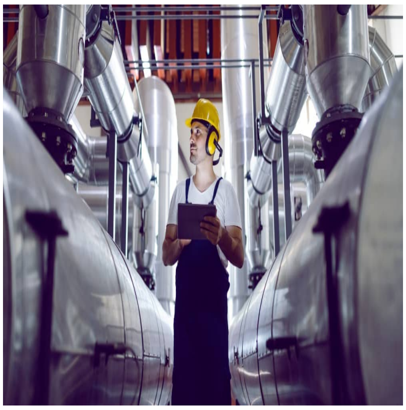

Should You Buy Enbridge Stock or Suncor Stock Now?

Description

Enbridge (TSX:ENB)(NYSE:ENB) and **Suncor** (TSX:SU)(NYSE:SU) took big hits through much of 2020, but the energy sector is on the mend. Is Suncor stock or Enbridge stock a better pick right now?

Enbridge stock appeals to income investors

Enbridge rose from $36 in early November to a recent high of $45 per share. Even after the nice rebound, Enbridge stock still trades well below the $57 mark it hit before the pandemic last winter and currently offers investors a 7.5% dividend yield.

Enbridge raised its payout last fall, and investors should see the distribution increase by 5-7% per year, which is in line with anticipated growth in distributable cash flow. The revenue gains should come from a steady portfolio of capital projects and strategic acquisitions. Enbridge is a giant in the energy infrastructure industry and has the financial clout to do deals that complement the existing assets.

The oil pipelines should return to capacity, as fuel demand increases through the back half of the year. In the meantime, Enbridge's natural gas transmission, storage and distribution assets continue to deliver steady and reliable cash flow. Investors could also see an expansion of the renewables business, which includes solar, wind, and geothermal assets.

The stock appears cheap right now, and income investors can pick up a great return with more dividend increases on the horizon.

Is Suncor stock oversold?

Suncor trades near $23 per share compared to $45 last January. The share price rallied over the past two months on a rising oil price, driven by positive vaccine news and supply controls. Investors expect lockdowns to ease once vaccines become widely distributed. That should result in people driving back to the office and planes getting back in service.

Oil surged from US$37 per barrel in the fall to the current price around US$53. That's high enough for Suncor's production assets to make decent margins. The company's 2021 production guidance indicates an anticipated 10% increase in output in 2021. Cash operating costs in the oil sands group will drop about 8% to $26-$28.50 per barrel. Improved oil prices and better refining margins should help cash flow bounce back. As a result, Suncor expects to reduce debt by as much as $1 billion in 2021.

Suncor was a dividend star for several years. It raised the payout during the Great Recession and through the oil rout that began in 2014. Unfortunately, the pandemic's impact on fuel demand put too much pressure on both the production and downstream operations, forcing the board the slash the distribution by 55% last year.

A return to dividend growth might occur by the end of 2021, but it will be a few years before the payout gets back to the previous level.

In its January oil market report, The IEA expects oil demand to recover by 5.5 million barrels per day in 2021. Global gasoline and diesel fuel demand should recover to near 2019 levels by the end of the year. That's good news for Suncor's refining and retail operations.

New lockdowns in China, Europe, Canada, and parts of the United States will slow the recovery in oil demand through the first part of 2021. This means the recent rally in oil prices could reverse. A sharp pullback would likely hit Suncor's stock price, and a drop back to $20 wouldn't be a surprise.

Should Enbridge or Suncor be on your buy list today?

Enbridge and Suncor both appear cheap right now and should deliver strong gains over the medium term. Enbridge provides a better dividend yield, while Suncor likely offers better upside torque on a recovery in the oil market.

Given the near-term risks, I would probably make Enbridge the first choice today and hope for a better entry point in Suncor stock over the coming weeks.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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