Should Suncor or Canadian Natural Resources Stock Be on Your Buy List Now?

Description

Suncor (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are on a roll after a terrible 2020. Investors who missed the recent rally want to know if Suncor or CNRL stock is a good buy.

Is Suncor still a cheap stock to buy?

Suncor stock trades near $28 compared to $15 at the end of October. Despite the strong rebound, the stock still trades way below the $44 mark it hit last January when oil prices were lower than current levels.

Suncor's oil production business will benefit from the rally in oil prices that occurred in the past few months. WTI oil traded near US$36 per barrel in later October. At the time of writing, it trades near US$65. Margins should be robust right now, and the longer oil holds or extends the gains, the more money Suncor will have to reduce debt and restart dividend hikes. Suncor cut its dividend by 55% last year at the onset of the pandemic.

Suncor's integrated business structure typically serves as a good hedge against dips in the oil market. However, the crash in 2020 came as a result of a global plunge in fuel demand, rather than being driven by supply shifts. As a result, Suncor's refining and retail operations took big hits along with the upstream business.

The second half of 2021 should see a rebound in fuel demand, as airlines restart flights and people head back to the office. That bodes well for Suncor's downstream business units. The International Energy Agency (IEA) predicts gasoline and diesel fuel demand will return close to 2019 levels by the end of 2021.

Suncor's Q1 2021 results could surprise to the upside. The company recently said it has cancelled $2.8 billion in credit lines it set up last year, citing strong oil prices. Suncor could exceed its goal of reducing debt by up to $1 billion this year if oil remains near current levels.

Canadian Natural Resources

CNRL has production assets that include oil sands, conventional light and heavy oil, offshore oil, and natural gas. The company tends to own 100% of its operations, so it has flexibility to move capital quickly to take advantage of resources that offer the best returns.

Natural gas is a large part of the operations and the natural gas sector held up reasonably well last year. CNRL maintained its 2020 dividend hike through the crash and just raised the payout by 11% for 2021. That shows investors that the board is optimistic about cash flow this year.

The stock trades near $39 per share compared to $21 last October. It was close to $42 before the pandemic, so the share price has pretty much recouped the losses. At the current level, the dividend still provides a 4.8% yield.

CNRL enjoys a strong balance sheet and has the financial firepower to make strategic acquisitions to drive growth.

Is Suncor or CNRL a better buy?

Suncor probably offers better upside torque on the continued reopening of the Canadian economy. CNRL provides a better dividend yield and is more of a pure play on rising oil and gas prices. The easy money has already been made in these stocks, but they should both be attractive picks for investors seeking out energy exposure in their portfolios.

I would wait for the next pullback and then split a new investment between the two stocks.

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Date
2025/07/21
Date Created
2021/03/10
Author
aswalker