2 Excellent Canadian Energy Stocks to Consider Buying

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) are on the rise as the energy sector begins its recovery in the equity market. Today I will discuss the two Canadian companies to help you determine which of the two could be a better pick for the energy sector recovery if you have to choose one.

Canadian Natural Resources

Canadian Natural Resources is a massive company with diversified production assets that include oil sands, offshore oil, natural gas, and conventional light and heavy oil production operations. The company owns 100% of its operations, giving it the flexibility to rapidly shift its capital to leverage resources that offer the company ideal returns.

Natural gas is a substantial part of its operations, and the segment held up reasonably well during the pandemic-riddled year. The company maintained its dividend hike despite the market crash and just raised its payout by 11% for 2021. The Canadian Dividend Aristocrat is optimistic about cash flow this year and did not lose its Aristocrat status.

The stock is trading for $40.24 per share at writing, and it is below its $42 mark before the pandemic. Its share prices have almost recouped the losses, and the stock provides its investors with a juicy 4.67% dividend yield.

Suncor Energy

At writing, Suncor is trading for $28.83 per share and is up almost 35% year to date. The stock is still trading below the $44 mark it was at during January 2020 when oil prices were lower than today.

Suncor is an integrated company that will see a boost in revenue with increasing oil prices. West Texas Intermediate (WTI) oil traded at nearly US$36 per barrel in October and is trading at just above US$65 per barrel at writing. The company's profit margins should be substantial right now.

The longer oil prices maintain current prices or go higher, the more Suncor can reduce its debt and begin dividend growth. It would be a massive sigh of relief for investors who saw the oil company slash its dividends by 55% at the onset of COVID-19 in anticipation of its economic fallout. Its slashed payouts currently represent a modest 2.91% dividend yield.

The company's integrated structure typically hedges the stock against dips in the oil market. However, the 2020 crash came due to a global decline in demand for crude oil. The crash saw Suncor's refining and retail operations also take big hits alongside its upstream business.

The second half of the year could be far stronger for the company as the International Energy Agency (IEA) touts that diesel and gasoline demand will return close to pre-pandemic levels by the end of the year.

Foolish takeaway

If you want to consider upside potential, it seems that Suncor still has some room to grow before its valuation reaches pre-pandemic levels. Canadian Natural Resources offers a better dividend yield to its investors and is a pure-play on rising oil and gas prices. Suncor has an integrated structure that creates more revenue streams for the oil giant.

Many investors have already made easy money through both stocks. Suncor could be a better pick in terms of its long-term upside potential.

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Author
adamothman