



## Better Buy: Suncor Energy or Canadian Natural Resources?

### Description

The expectation of revival in oil demand amid economic expansion has led oil prices to rise this year. The rising oil prices have brought much-needed relief to the energy sector, which was severely hit by the pandemic-infused lockdown. So, amid increased interest in the energy sector, let's examine which among **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) can deliver better returns this year.

### Suncor Energy

Amid the rising oil prices and improving operating metrics, Suncor Energy's stock price has increased by 25.4% this year. Its operating losses declined on a sequential basis during its recently announced fourth quarter, while its funds from operations improved from \$1.17 billion in the third quarter to \$1.22 billion. Despite the rise in its stock price, the company is still trading 34% lower than its pre-pandemic levels. Its valuation also looks attractive, with its price-to-book and price-to-sales multiples standing at 1 and 1.2, respectively.

Meanwhile, Suncor Energy's management expects its production and refinery utilization rate to improve this year, while its operating expenses could fall. Further, industry experts project oil prices to remain strong for the rest of this year amid the ongoing vaccination drive. Given its integrated business model and long-life, low-decline assets, Suncor Energy is well positioned to benefit from the rising oil prices.

The company has also announced lowering its debt significantly and repurchase shares worth over \$500 million this year, depicting the confidence in its future earnings and cash flows. The company also pays quarterly dividends of \$0.21 per share, with its dividend yield standing at 3.4%.

Analysts are bullish on Suncor Energy. Of the 22 analysts that follow the company, 15 have given a "buy" rating, while the remaining seven have issued a "hold" rating. Analysts' consensus price target stands at \$32.94, representing a return potential of 23.1%.

## Canadian Natural Resources

Thanks to its more robust balance sheet, a varied product base, and long-life, low-decline assets, Canadian Natural Resources has performed better than its peers during the pandemic. It reported net earnings of \$749 million in its recently announced fourth quarter, representing both sequential and year-over-year improvement. Its adjusted fund flows also improved sequentially but were lower than its previous year's quarter.

Further, the company raised its 2021 dividends by 11% to \$1.88 per share, marking 21 consecutive years of dividend increase. Its forward dividend yield looks attractive at 4.8%. Meanwhile, in October, the company had completed the Painted Pony Energy acquisition, increasing its natural gas and NGL productions. Further, the company has also planned to make a capital investment of \$3.2 billion this year, increasing its annual production by around 61,000 BOE/d from its previous year's production levels. The management also hopes to generate free cash flow in the range of \$4.9 billion to \$5.4 billion this year, provided WTI crude average about \$57 per barrel.

The rising oil prices, solid fourth-quarter performance, and a promising 2021 guidance have driven Canadian Natural Resources's stock price by 27.5% higher this year. Despite the increase, its valuation still looks attractive, with its price-to-book and forward price-to-sales multiples stands at 1.2 and 2.2, respectively.

Analysts are also bullish on Canadian Natural Resources, with 20 of the 23 analysts covering the stock have given a "buy" rating, while the remaining three analysts have given a "hold" rating. The consensus price target stands at \$46.70, representing a return potential of 19.7%.

## Bottom line

With oil prices expected to remain at elevated levels for the rest of this year, both companies could deliver superior returns. Meanwhile, I expect Suncor Energy to deliver better returns given its cheaper valuation.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

### PARTNER-FEEDS

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