



Suncor Energy or Canadian Natural Resources: Which Is a Better Buy?

Description

After years of underperformance, the energy sector has finally yielded some respite to investors since last year. As crude oil breached US\$70 per barrel this month, many hope to see it clocking US\$100 soon.

Top TSX energy stock to buy today

Irrespective of the crude oil price target, energy giants will likely see handsome growth this year amid the returning demand. Canadian energy giant **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock is up almost 25%, while **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) has soared a handsome 90% in the last 12 months.

If you want to play the energy rally, which TSX stock should you bet on?

Let's dive in.

The \$47 billion company Suncor Energy is Canada's largest oil sands producer. Its integrated operations span from oil production and refining to the marketing of petroleum products. These integrated operations help to lessen the impact of volatile oil prices.

In comparison, Canadian Natural is a \$54 billion company with a highly diversified product portfolio. It produces a balanced mix of natural gas, light and heavy crude oil, and natural gas liquids.

Energy demand will likely remain rosy this year and beyond, driven by re-opening and vaccinations. Improved demand outlook should bode well for crude oil prices as well, ultimately increasing free cash flow prospects for energy companies.

Financials

Suncor Energy returned to profitability in Q1 2021 after crude oil prices recovered compared to last

year. It reported a net profit of \$821 million for the quarter against a loss of \$3.5 billion in Q1 2020. Canadian Natural was much better placed throughout the crisis last year. It [posted](#) a net income of \$1.4 billion in Q1 2021 compared to a loss of \$1.3 billion in the same quarter last year.

If we consider the return-on-equity ratio of both these energy giants, CNQ's ratio comes close to 7%, while Suncor's is below 1% for the last 12 months. While both these underline depressed return trends, they could improve from here, as the outlook for energy commodities gets better. The return-on-equity ratio indicates how effectively the company uses its equity to generate net profits.

When we compare dividends, CNQ has the edge over SU because of its higher yield. CNQ yields 4.5%, while SU yields 2.7%. Suncor trimmed its dividends by a steep 55% last year when cash preservation became vital.

However, Canadian Natural kept increasing shareholder payouts during the pandemic. While Suncor might not cut dividends in the near future, Canadian Natural's [dividends](#) look more attractive due to the superior yield.

As earlier discussed, CNQ stock has notably outperformed Suncor in the last 12 months. However, CNQ stock does not look expensive from the valuation front. It might continue to rise higher, driven by strength in oil and gas prices.

Bottom line

Note that Canadian Natural has beaten Suncor stock in the last five-year, 10-year, and 20-year time horizons. While CNQ stock is not completely immune to market downturns, it looks better placed compared to peers. Importantly, its higher dividend yield, diversified product portfolio, and robust balance sheet stand tall against Suncor Energy.

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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.)

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