Like Suncor Stock? 3 More Energy Stocks to Consider 1st

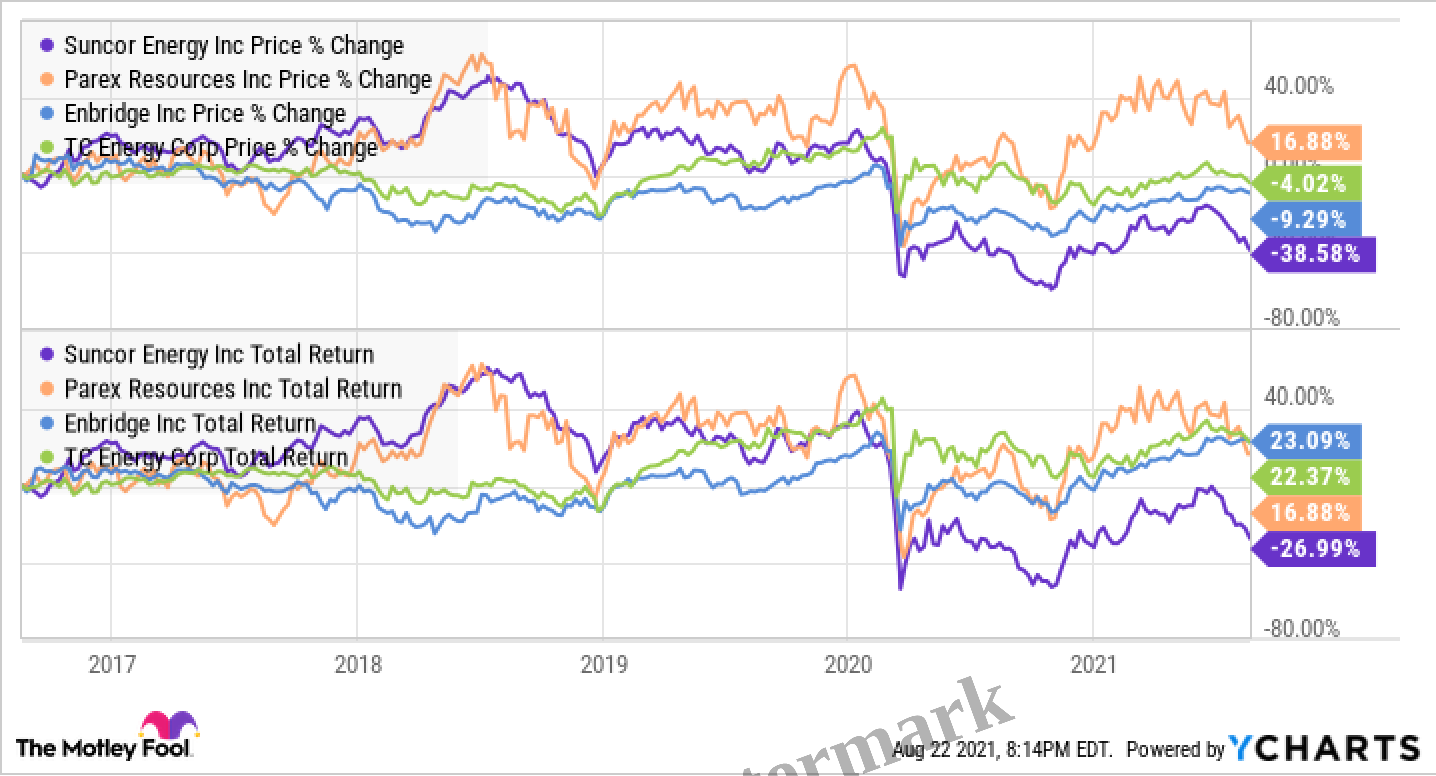
Description

You might be tempted to buy some shares of **Suncor** (TSX:SU)(NYSE:SU) stock, because it is more depressed than its peers. However, other energy stocks have displayed more reliable business results. They could be better energy stock investments.

Suncor stock cut its quarterly dividend by more than half during the pandemic last year. Its trailing 12-month free cash flow is half of the 2019 levels. The depressed stock makes it a value play that can potentially be lucrative. In the meantime, it pays a 3.7% dividend that appears to be safe, as the company pays out about half of its free cash flow as dividends.

However, if we were to run into another bear market or recession, Suncor stock's already weakened business performance could worsen. Why not consider these other more reliable energy companies first for your energy stocks?

Here are the comparisons of several energy stocks' five-year stock price changes and total returns.



Data by YCharts.

Parex Resources

Parex Resources's (TSX:PXT) stock price was the strongest among the four energy stocks. However, after accounting for dividends, which are a part of the total return equation, **Enbridge** (TSX:ENB)(NYSE:ENB) stock was the winner in the last five years. That said, Parex just started paying a quarterly dividend, which could help turn the table in the next five years.

Based on Parex's outstanding shares and current annualized dividend of $0.50 per share, it would pay out a total of almost $62.5 million a year in dividends. This turns out to be a low payout ratio of about 19% of free cash flow produced in the trailing 12 months.

The oil and gas producer tends to buy back shares. Other factors that will affect its payout ratio would be the volatile Brent oil price and the changing foreign exchange between the greenback and the loonie, as the company reports in U.S. dollars but pays out a Canadian dollar-denominated dividend.

Last year, Parex cut back oil production by about 12% and sales by 13% due to low energy prices, thereby raising its 2020 year-end oil inventory to 3.6 times what it was at the end of 2019. Management patiently waited for higher oil prices before offloading much of the inventory in the second quarter of 2021.

Despite how well Parex is managed, the summer season, in which energy stocks tend to perform strongly, is almost over. If you like the company, perhaps buy a partial position because it's undervalued and add more if it dips further over the next few months.

Energy stocks with more reliable returns

As the chart demonstrates, energy stocks like Enbridge and **TC Energy** have provided more reliable returns in the long run. They transport and distribute energy. Their cash flows are more stable, because they are much more resilient to the volatile energy prices. Therefore, they have dependably increased their dividends. Both have increased their dividends for at least 20 years.

Enbridge and TC Energy have typically offered some of the most attractive and safe dividends among energy stocks. Currently, Enbridge stock yields almost 6.9%, and TC Energy yields 5.9%. That means investors can park their money in them at attractive valuations and earn a nice passive income. At their recent quotations of $48.55 and $58.75 per share, respectively, Enbridge appears reasonably valued, and TC Energy seems to be slightly undervalued.

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1. Energy Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:PXT (PAREX RESOURCES INC)
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Date
2025/09/10
Date Created
2021/08/23
Author
kayng