Is Suncor or Enbridge Stock a Better Dividend Buy?

Description

Suncor (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB) continue to trade well below their pre-pandemic stock prices. With the recent pullback in the energy sector, investors are now wondering which stock might be best to buy for a dividend portfolio.

Suncor

Suncor is Canada's largest integrated energy company with oil production, refining, and retail operations. The plunge in fuel demand last year due to pandemic lockdowns hurt all three of Suncor's divisions. Falling oil prices hit margins on the upstream business, while grounded planes and parked cars reduced revenue at refiners and gas stations.

Suncor decided to slash the dividend by 55% as a measure to protect cash flow while it navigated the uncertainty of the crisis. This upset shareholders who had relied on Suncor's steady distribution growth for years. The stock dropped from $44 before the COVID-19 crash to around $15 in the fall of 2020.

The rebound in WTI oil from US$36 per barrel in October last year to the current price near US$69 has helped Suncor's cash flow recover. The company reported solid Q2 2021 results and is using excess cash to reduce debt and buy back shares.

At the time of writing, the stock trades near $24 compared to a 2021 high of $31. Part of the recent weakness is connected to operational issues at the Fort Hills oil sands site. The company expects to have the problem sorted out by the end of the year.

Suncor should see the downstream operations bounce back, as fuel demand rebounds in the next 12-18 months. Investors who buy the stock now can pick up a 3.5% yield. Assuming oil holds or extends its gains, Suncor should start increasing the dividend again next year, and the hikes could be significant.

Enbridge

Enbridge is a giant in the North American energy infrastructure industry. The company has a market capitalization of $100 billion and moves a quarter of the oil produced in Canada and the United States.

Enbridge's oil pipelines are the largest part of the business, but the company also owns natural gas transmission, gas storage, and natural gas distribution businesses that held up well last year. Nearly 20% of all the natural gas used in the United States runs through Enbridge's natural gas network. The company's renewable energy group continues to grow.

A rebound in fuel demand should help bring throughput on Enbridge's oil pipelines back to near capacity levels. The company's Line 3 project recently received another legal win and could be in operation by the end of the year.

Getting new pipelines built is difficult these days, and Line 3 could be the last major project that carries Canadian oil to the United States.

The stock trades near $49 per share at the time of writing compared to $56 before the pandemic. Investors who buy now can pick up a 6.7% dividend yield.

Should you buy Suncor or Enbridge?

Both stocks look cheap right now for dividend investors. That being said, Suncor probably has the better upside potential for both dividend growth and share price appreciation. If you are searching for the best total-return opportunity, I would probably make Suncor the first choice.

That being said, income investors might prefer Enbridge for the higher current yield. The dividend should be safe with annual payout growth of 3-5% being a reasonable expectation over the medium term.

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Date
2025/09/13
Date Created
2021/09/01
Author
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