Suncor (TSX:SU) or Enbridge (TSX:ENB): Which Should You Buy?

Description

What should you look into when buying an energy stock in Canada? There are several different financial metrics you can gauge different energy stocks by, and you also have to take into account the sector as a whole, including the company's presence/position in it.

The choice gets a bit easier if you have short-listed your potential buys down to two. And if you are torn between **Suncor** (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB), there are quite a few areas you can compare the two, foremost among them are dividends. There is also the capital growth potential, value, and future potential of the company.

The dividends

When it comes to dividends, Enbridge is a clear winner. That's mostly because of its proven dividend sustainability. In 2020, Suncor slashed its dividends, ending its 18-year streak of dividend growth. It was a financially sound decision that helped the company survive a very harsh time for the energy sector around the globe. But it also pushed the company down from the ranks of some of the most beloved dividend stocks in Canada.

Suncor *did* make amends. For the fourth quarter of 2021, the company has declared a dividend that's double the earlier payouts, though still lower than the 2020 peak payout. Enbridge still offers a much higher yield (6.7% over Suncor's 5.6% for now), though it might change in 2022. But Enbridge's position on dividends is much stronger than Suncor's.

Capital-growth potential

This is another area where Enbridge technically wins, especially if we base our opinion on the 10-year CAGR of both stocks: Suncor's 3.4% and Enbridge's 8.4%. But there are several other variables in this equation.

Enbridge has almost reached its five-year peak (just over 5% down), even taking the current slump into account, while Suncor is 42% down from its five-year peak. And in 2021, when the sector was on the tear, Suncor's growth has been choppy, while Enbridge's has been quite consistent.

Value

Both stocks are quite near their fair valuation right now, though Suncor has a slight edge. But again, the scales might tip in Enbridge's favour a bit, because it has reached a similar valuation *while* being much closer to its pre-pandemic peak than Suncor.

Prospects

That's where the business model and focus of the two energy giants come into play. Enbridge, as the largest pipeline company in Canada, transports both natural gas and oil across North America, and a lot of it.

Pipeline companies are considered safer compared to energy companies directly associated with production and refining because of their long-term contracts, and the premise is that as long as there is oil and natural gas to transport, these companies would remain in business.

In contrast, oil and gas producers might grow thin if demand slumps precipitously. And even if we consider this premise flawed, translating the same logic for pipeline companies, Enbridge, thanks to its sheer weight, might literally be the last one standing in this arena.

Suncor, however, is a major energy producer and the oil sands king of the region. Most of its operations are in Canada, but some are offshore (Norway, Libya, and even Syria). The bulk of its production relies upon oil sands. This asset might pay off in longevity, but only if the demand stays healthy for decades — i.e., long enough for its competitors to run out (or become equally pricey), which might not be the case.

Foolish takeaway

Across these four dimensions, at least, Enbridge seems like a better choice out of the two, but that doesn't push Suncor out of the running yet. The pandemic was a stress test for the sector, and Suncor survived it well. If it can adapt better and start repositioning itself for the green future, it might enter a long-term bear market phase.

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