Dividend Investors: Should You Buy Enbridge or Suncor Energy Stock for Retirement Income?

Description

The energy sector is enjoying a strong rebound after the 2020 slump, and dividend investors are flocking back to producers and energy infrastructure names. Let's take a look at **Suncor** (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB) to see if one is a better pick today.

Suncor

Suncor shocked dividend investors in 2020 when it slashed the payout by 55% to protect cash flow during the worst of the pandemic. Management had always protected the distribution during previous downturns, so the surprise move put the stock in the doghouse over the past two years.

Investors thought the payout might increase in early 2021, but Suncor used the 2021 cash windfall to reduce debt and buy back shares. That process continues in 2022 and will be positive for investors over the long run. The board did increase the dividend by 100% late in 2021 to bring the payout back to the 2019 level. Suncor's peers who maintained the payouts in 2020, however, also increased distributions in 2021 and again this year. As a result, Suncor is under pressure to make up more of the lost ground, and it wouldn't be a surprise to see another significant increase when the Q1 or Q2 2022 results are announced.

WTI oil is holding steady above US$100 per barrel, and fuel demand is expected to surge in the second half of 2022, as airlines boost capacity and commuters begin heading back to offices. All things considered, Suncor stock looks undervalued and offers a 4% dividend yield. If you are of the opinion that WTI oil is going to remain above US$80 per barrel for the next few years, it might be worthwhile to buy Suncor now and wait for the dividend increases to materialize.

Enbridge

Enbridge isn't an oil or gas producer. The company simply transports the fuels or provides storage services. Enbridge also operates natural gas distribution utilities and has a growing renewable energy division.

Revenue growth is not going to be as rapid as it was in the past. Big oil pipeline projects are unpopular with governments and the general public, and getting new ones approved is now very difficult. That being said, Enbridge still has opportunities for smaller capital projects throughout its vast infrastructure network and has the financial clout to make strategic acquisitions to boost growth.

The rebound in fuel demand is good news for Enbridge. The company moves 30% of the oil produced in Canada and the United States and about 20% of the natural gas used by Americans. Enbridge spent US$3 billion late last year to buy a strategic oil export terminal in Texas. The company is also getting into the carbon-sequestration segment with a number of recent agreements announced with high emitters who need to meet ESG targets in the coming years.

Distributable cash flow is expected to increase by 5-7% per year over the medium term. Enbridge increased the dividend by more than 3% for 2022 and is allocating extra cash to buy back shares. Distribution growth of 3-5% per year is a reasonable expectation for dividend investors. At the time of writing, Enbridge stock provides a 5.9% yield.

This is a good stock to buy for high-yield payouts in a portfolio geared to passive income.

Is Suncor or Enbridge a better dividend stock?

Suncor probably offers better dividend-growth potential over the next few years, but the stock is also more likely to see volatile moves due to its reliance on commodity prices. Enbridge is a more stable bet and still provides a great yield, but dividend hikes are expected to be in the single digits going forward.

If you only buy one, I would probably make Suncor the first pick today. Otherwise, it would make sense to split a new investment between the two stocks.

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