Suncor Energy vs. Enbridge: Which Oil Stock Is Better?

Description

Enbridge (TSX:ENB)(NYSE:ENB) and **Suncor Energy** (TSX:SU)(NYSE:SU) are two of Canada's most popular energy stocks. One is a pipeline; the other is an integrated energy company. So, they are very different businesses. However, they share one important trait in common: dividends.

Both Enbridge and Suncor have very high dividend yields, making them attractive plays for dividend investors. At today's prices, ENB yields about 5.9%, while SU yields 3.9%. One clearly has a higher yield than the other, but, as you will see shortly, the lower-yielding stock has some attractive features as well. In this article, I will explore the pros and cons of both SU and ENB, so you can decide which energy play is right for you.

The case for Enbridge

There are two points that can be made for Enbridge over Suncor:

1. Its business would do better than Suncor's would if oil prices dropped.
2. Its dividend yield is higher than Suncor's.

Of these two points, the first is perhaps the most significant. Enbridge's main business is midstream — that is, it transports oil and gas. The business model here involves charging businesses transportation fees rather than a cut of oil sales. Sometimes, pipeline contracts have tolls that vary with the price of oil, but pipelines don't swing to losses when oil prices reach a certain level. This can be seen in Enbridge's 2020 results. That year, ENB's earnings took a moderate dip, while Suncor's went negative. So, Enbridge will be safer than Suncor if the price of oil starts falling.

The second point, about the dividend yield, is less substantive than the first. Enbridge does have a higher yield than Suncor today, but that could change in the future. If oil prices keep rising, then Suncor will have higher profits and may be able to pay out higher dividends in the future. Nevertheless, Enbridge's yield for the next 12 months will likely be higher than Suncor's.

The case for Suncor Energy

Here are the two biggest things Suncor Energy has going for it compared to Enbridge:

- Higher potential earnings when oil rises
- A lower payout ratio

The first point here is basically the inverse of my first point about Enbridge. Just like Suncor suffers more than Enbridge when oil prices fall, it also benefits more when they rise. As an integrated energy company, Suncor sells oil directly. So, it brings in more revenue when oil prices rise, without necessarily incurring higher costs.

Suncor’s dividend is also a bit better covered than Enbridge’s is. According to Yahoo Finance, Suncor has a 37% payout ratio, which is much lower than ENB’s 116%. Enbridge’s cash flow payout ratio is lower than its earnings payout ratio, at 72%, but even that “adjusted” payout ratio is much higher than Suncor’s. So, Suncor’s dividend payout is safer than Enbridge’s if we assume that oil prices stay above $45 — Suncor’s breakeven level.

Foolish takeaway

Enbridge and Suncor Energy are among Canada’s most popular oil and gas stocks for a reason. Boasting high-dividend income and solid earnings growth, they are among the top players in Canada’s most prominent industry. Either one of them would be a worthy addition to an energy stock portfolio.

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