Which Is the Better Pick: Suncor (TSX:SU) or 1 Big Bank?

Description

The TSX's energy and banking sectors are both heavyweights. However, the former is on fire since coming out from slump in 2020. Thus far this year, the year-to-date gain is over 58% compared to the financial sector's 7.18% loss. A beaten-down oil bellwether during the COVID year appears to be the better pick over Canada's fifth-largest bank.

On May 24, 2022, **Suncor Energy** (TSX:SU)(NYSE:SU) hit an intra-day high of $50.07. It's interesting, because the energy stock hasn't breached the $50 mark since 2018. The oil sands king and industry peers benefit from rising commodity prices. Meanwhile, **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) underperforms, despite rising interest rates. The big bank stock is down 4.55% year to date.

Long, hard climb

Suncor Energy lost big time in 2020 when oil prices sunk to historically low levels. Because of the mounting losses, management took drastic actions to preserve capital and protect the balance. Among the extreme measures was the 55% slash in dividends. The energy stock lost its Dividend Aristocrat status as a result.

Fortunately, the energy prices stormed back when demand came back following the lifting of lockdowns. With free cash flows growing rapidly, Suncor made sure it won investors' trust and confidence again. The $70.11 billion integrated oil company restored the dividend yield to pre-pandemic levels in 2021.

Suncor also increased dividends by 12% recently. You can partake of the generous 3.85% yield if you invest today. Moreover, the year-to-date gain is 58.45% or at par with the energy sector's performance. Management hopes to bring down the debt level to $9 billion. If successful, it plans to dedicate 100% of excess funds to returning cash to shareholders.

Momentum is on the side of Suncor since the start of this year. In Q1 2022, net earnings soared 259.20% to $2.95 billion versus Q1 2021. The company paid a total of $601 million in dividends and repurchased $827 million worth of shares. Its $4.1 billion adjusted funds from operations were also the highest in a quarter for Suncor.

Mark Little, Suncor's president and CEO, added, "Our increased cash flows enabled us to reduce net debt by $728 million." Market analysts covering the stock have a high price target of $60 in the next 12 months.

Sterling dividend history

Canada's giant lenders, including CIBC, has paid dividends for more than a century. The 4.7% dividend yield of this $62.87 billion bank is the second highest among the Big Five. But according to some analysts, the earnings growth of Canadian banks in Q2 fiscal 2022 might be slowest in almost two years.

Barclays Plc analyst John Aiken said, "Based on how the market has shifted in terms of greed versus fear over the last three months, expectations are that the banks are going to be a bit more heavily weighted toward a negative economic scenario."

Still, CIBC should recover like in the past years if the share price drops. More importantly, investors shouldn't worry about a dividend cut. Given the low 41.57% payout ratio, the bank can sustain the dividend payments.

Profitable choices

Suncor and CIBC are profitable investments. If choosing between the two is difficult, combine them in your portfolio instead.

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