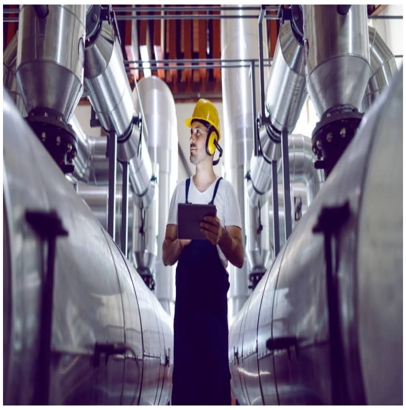

Canadian Energy Stocks for Dividend Investors: Enbridge vs. Suncor

Description

Canada has the third-largest crude oil reserves. It is the fourth-largest exporter of crude oil, as it exports 99% of its oil to the United States. The country's rich natural resources, especially in oil sands, make its energy stocks an attractive investment.

Canada's energy stocks

Canada's energy sector is dominated by two companies: **Suncor Energy** (TSX:SU)(NYSE:SU) and **Enbridge** (TSX:ENB)(NYSE:ENB). Suncor is Canada's largest integrated oil company, extracting and refining crude oil and retailing all types of petroleum products like diesel, gasoline, and airline fuel. Enbridge has the largest oil and gas pipeline infrastructure in North America that facilitates energy exports to the United States.

Both are market leaders in their respective areas. But if you are a dividend seeker, which among the two is a better stock for you? Let's find out.

Suncor Energy's dividend history

Suncor's business is sensitive to crude oil prices. The biggest setback came in 2014, when shale gas exploration reduced oil prices from over US$100 to US$65. Oil is a commodity whose price is determined by demand and supply forces and geopolitical scenarios. The up-and-down cycle could have a sweeping change in oil companies' fundamentals.

During the pandemic, the global lockdown reduced oil demand and pushed oil prices to US$35, below the production cost. All oil producers reported losses and cut production. High-cost producers filed for bankruptcy. Suncor was better off because of its low production costs. It posted losses and halved dividends in 2020 to save cash. As oil prices recovered at the end of 2021, oil producers resumed production. Suncor made up for the dividend cut by doubling its dividend in the 2021 recovery.

Its dividend history is impeccable. Suncor has paid regular quarterly dividends since 1997 and even raised it at a compounded annual growth rate (CAGR) of 17% between 2011 and 2019. Before 2019, when Suncor didn't increase its dividend, it announced a stock split. But it was the first time in 2020 that it announced a dividend cut. It aims to increase dividends at a CAGR of 25% by 2025.

Enbridge's dividend history

Unlike Suncor, Enbridge has a more stable business model and is not sensitive to oil and gas prices. Moreover, Enbridge's business is more diversified, as it transmits oil and natural gas through its pipelines. The company is also investing in wind energy and gas utility. It does come under environmental scrutiny, as building pipelines impacts nearby habitats. But Enbridge has a good track record of completing projects without much delay and within budget.

Enbridge charges a toll, depending on the volumes transmitted through its pipeline. With every new pipeline comes a new source of cash flow, which it uses to build and maintain pipelines and pay dividends. Enbridge has been paying regular dividends for over 40 years and increasing it at a 10% CAGR since 1995.

Lower oil volumes during the pandemic impacted Enbridge's distributable cash flow (DCF), but a rise in natural gas volumes partially offset the decline. Hence, the pipeline operator slowed its dividend growth from 10% to 3% in 2020 and 2021. The company has $10 billion worth of projects under construction. Its DCF could grow as these projects come online, and it could accelerate its dividend growth.

Should dividend investors buy Suncor or Enbridge?

Although Suncor's dividend history is strong, its business relies solely on oil. And governments have been cutting down on oil and gas capital expenditure as they shift to green energy. Enbridge can shift its pipeline usage to transmit clean energy instead of oil.

Between Suncor and Enbridge, the latter has a higher dividend yield and a stable and diversified source of cash flow. (Suncor and Enbridge have 3.58% and 5.8% dividend yields, respectively.) The Russia-Ukraine war has pushed oil prices to US$115, and Suncor and Enbridge are key beneficiaries. But when this crisis eases and oil prices normalize, Suncor could see a bigger correction than Enbridge.

When looking at dividend stocks, look at the company's future cash flows and the stability of the business model. Enbridge is a clear choice for dividend lovers seeking stable passive income.

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Date
2025/07/03
Date Created
2022/05/30
Author
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