



Enbridge vs Suncor Energy – Which Oil Stock is the Better Buy?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) and **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) are two stocks at opposite ends of the oil and gas spectrum. On the one hand, you have an exploration company that extracts oil and sells gasoline. On the other, you've got a pipeline company that's also a natural gas utility. Since they operate in different parts of the oil and gas supply chain, they don't seem all that similar, but they both appeal to dividend investors who believe in the future of oil.

ENB and SU are both popular, being among the 20 largest companies in Canada by stock market value. A lot of investors own both stocks. In this article I will make a case for each one, so you can decide which is the best fit for your portfolio.

The case for Enbridge

The case for Enbridge relative to Suncor is based on two key elements:

1. Income.
2. Stability.

Both Suncor and Enbridge pay dividends, or [cash payouts to shareholders](#). However, Enbridge has the much higher yield (percentage of the initial investment paid back to the shareholder). ENB has a 6% yield, Suncor has a 4.3% yield. So if you invest \$100,000 in each of these stocks, ENB will pay you back \$6,000 in a year, SU only \$4,300. So ENB wins on income potential—near term income potential, at least.

Enbridge's revenue streams are also much more stable than Suncor's. Suncor's sales fluctuate wildly as oil prices go up and down. Enbridge signs long-term contracts whereby clients "rent" out its pipeline like a tenant renting an apartment. One company has recurring revenue locked in, the other is at the mercy of the oil market. So Enbridge is more stable than Suncor.

The case for Suncor

The case for Suncor largely resolves around higher potential returns. Suncor's profits grow dramatically when the price of oil goes up. In its most recent quarter, its [earnings grew 259%](#) compared to the same period last year. Sales increased 55%. You just don't see that kind of growth from pipelines. While pipelines' revenue is fairly stable, that stability is a liability when oil prices are high: they aren't getting a big cut of the rising prices. Some pipeline companies have contracts that stipulate higher rates when oil goes up, but that's relatively rare. Most of them just charge set rates. So Suncor has a lot more capital gains potential than Enbridge in a best case scenario.

Verdict?

Having looked at both Suncor and Enbridge, it's time to answer the question:

Which is the better buy?

Me personally, I like Suncor more—I have owned the stock before, I've never owned Enbridge. Suncor is experiencing much higher growth than Enbridge, with triple-digit growth in earnings and cash flows. Enbridge stock is up too, but it's been a much slower ride. Ultimately, pipelines are a "slow and steady" kind of investment.

With that said, my personal preference might not be yours. If you're more concerned about cash flow than total return, then Enbridge will deliver more of what you seek than Suncor will. Also, ENB doesn't need high oil prices to be profitable, Suncor does. If oil crashes later this year, Enbridge shareholders will make out much better than Suncor shareholders will.

CATEGORY

1. Energy Stocks
2. Investing

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