



Oil Price: Should You Buy Suncor (TSX:SU) or Canadian Natural Resources (TSX:CNQ) Stock?

Description

Suncor ([TSX:SU](#))([NYSE:SU](#)) and **Canadian Natural Resources** ([TSX:CNQ](#))([NYSE:CNQ](#)) have pulled back from the 2022 highs. Investors who missed the big rally in energy stocks earlier this year and stayed on the sidelines during the plunge are now wondering if SU stock or CNQ stock are undervalued and good to buy at their current share prices.

Suncor

Suncor trades for \$39 per share at the time of writing. That's down from \$53 in June and roughly 10% below the price it fetched in early 2020 before the start of the pandemic when West Texas Intermediate (WTI) oil traded at just US\$60 per barrel. Suncor has significantly underperformed its peers, including CNQ, and this has resulted in a meaningful shakeup at the management level. Suncor's CEO recently resigned, and a number of new faces joined the board after the company bowed to pressure from an activist investor.

Suncor is now monetizing non-core assets and evaluating the potential sale of the retail business, which includes a portfolio of about 1,500 Petro-Canada gas stations and convenience stores. The activist investor says the sale of the retail business could unlock up to \$9 billion in value. Some analysts think the division could command an even higher price.

In the meantime, Suncor is working to rebuild credibility with the market. The board raised the dividend by 100% late last year after cutting the payout by 55% in 2020. Suncor increased the dividend by another 12% when the company reported first-quarter (Q1) 2022 results, so the distribution is now above the pre-pandemic level. Suncor is also reducing debt and buying back up to 10% of the outstanding stock under the current normal course issuer bid (NCIB). In the Q2 2022 earnings report, Suncor said it has already reduced the float by more than 6% in the first seven months of this year.

Suncor's dividend provides a 4.8% yield at the current share price.

Canadian Natural Resources

CNRL is best known for its diversified portfolio of oil-production assets that include oil sands, conventional heavy oil, conventional light oil, and offshore oil. However, CNRL is also a major natural gas producer.

Natural gas demand and prices remain high, and that situation is expected to continue for several years, as the world scrambles to secure long-term liquified natural gas (LNG) supplies from Canadian and American producers. Europe is trying to end its reliance on Russia for oil and natural gas. Countries in Asia and other regions are turning to natural gas to generate electricity as a substitute for oil and coal that produce much higher levels of carbon dioxide when burned.

CNRL raised its dividend in each of the past 22 years. The board increased the payout by 28% for 2022 and just announced a special dividend of \$1.50 per share. This is on top of the base quarterly distribution of \$0.75 per share. Investors who buy the stock today can secure a 4.4% dividend yield. CNRL is also using excess cash to reduce debt and buy back shares.

CNQ stock currently trades near \$67 per share compared to \$88 earlier this year. The share price was about \$40 before the start of the pandemic.

Is SU stock or CNQ stock a better buy?

The price of WTI oil is back below US\$90 per barrel after surging above US\$120 earlier this year. Oil bulls who think the price will rebound might want to consider adding both Suncor and CNRL to their portfolios while the stocks are under pressure.

Suncor is probably the most undervalued right now and likely offers the best upside potential if the new management team can turn the business around as planned.

That being said, investors focused on passive income and total returns might want to make CNRL the first choice. The natural gas business diversifies the revenue stream and should drive strong future growth. CNRL will likely continue to declare generous special dividends and raise the base payout in the next few years, boosting the yield investors get on their initial investment.

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