Better Buy: Suncor Stock or Royal Bank Stock?

Description

The market correction is giving TFSA and RRSP investors a chance to buy top TSX stocks at undervalued prices. Bank stocks have taken a beating this year and energy stocks are down from their 2022 highs. Let's take a look at **Suncor** (TSX:SU)(NYSE:SU) and **Royal Bank** (TSX:RY)(NYSE:RY) to see if one deserves to be on your buy list right now.

Suncor

Suncor used to be the top go-to stock in the Canadian energy sector. Investors liked the company for its integrated business model that derives revenue from production, refining, and retail operations. Its downstream businesses traditionally provided a good revenue hedge against dips in the price of oil and that helped put a floor under the share price during market volatility.

However, the pandemic hit all three divisions hard as the price of oil crashed due to lowered fuel demand, rather than as a result of excess supply. Suncor slashed its historically resilient dividend by more than 50% in the spring of 2020. This upset investors and they still haven't returned to the stock despite a strong rebound in fuel demand and soaring oil prices.

Suncor trades near $44 per share at the time of this writing. This is about where the stock sat in early 2020 before the crash. The price of WTI oil was around US$60 per barrel back then, compared to US$85 today. With fuel demand moving back to 2019 levels, Suncor stock now looks undervalued.

The board raised the dividend by 100% late last year and hiked the payout by another 12% in 2022. This brought the dividend to a new high and investors can now get a 4.25% yield.

Royal Bank

Royal Bank trades for $122 per share at the time of this writing. The stock was above $149 at the 2022 peak. The steep drop in RY stock occurred over the past several months amid a broad pullback in the financial sector. Investors are increasingly concerned that high inflation will persist for longer than expected, and as a result, central banks will continue to raise interest rates and keep them high for a sustained period of time.

The resulting slowdown in discretionary spending is expected to trigger a recession and potentially reverse the strong jobs market. Households are already dipping into saving to cover higher bills for essentials such as food and fuel. A sharp jump in mortgage costs combined with a wave of job cuts could send the housing market into a tailspin. In that scenario, Royal Bank and its peers could be in for some rough times ahead due to the large portfolios of residential mortgages sitting on their books.

Economic turmoil is expected, but economists are predicting a mild and short recession. Royal Bank has the capital to ride out a downturn and the bank should continue to generate strong profits, even if revenue slows down and loan losses increase.

Royal Bank increased its dividend by 11% late last year and raised the distribution by another 7% when the bank reported fiscal Q2 2022 results. This would suggest that the management team is comfortable with the profit outlook. RY stock now offers a 4.2% yield.

Is one a better buy?

Suncor and Royal Bank pay attractive dividends that should continue to grow. The stocks appear oversold right now and should both be solid picks for a buy-and-hold TFSA or RRSP.

If you only buy one, I would probably make Suncor your first choice. Energy prices are likely headed higher in 2023 and investors might not fully appreciate how profitable Suncor could be if oil stays above US$80 per barrel for several years.

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aswalker