Should You Buy Suncor Stock or Enbridge for Passive Income?

Description

Retirees and other investors seeking reliable passive income are searching for dividend stocks that will continue to raise their distributions in the coming years.

A rebound in the energy sector has investors wondering if this might be a good time to buy oil stocks or pipeline stocks that offer attractive dividends today.

Suncor

Suncor (TSX:SU) currently trades near $45 per share compared to $53 in early June. Oil stocks have pulled back in recent months, as the price of oil retreated from the 2022 highs. At the time of writing, West Texas Intermediate (WTI) oil is about US$80 per barrel. It was above US$120 earlier in the year.

The current price remains very profitable for Suncor. The company reported adjusted operating earnings of $2.565 billion in the third quarter compared to $1.04 billion in the same period last year.

Suncor is using excess cash this year to buy back up to 10% of the outstanding stock under the existing share-repurchase plan. As of October 31, the company had already spent $4.6 billion on share buybacks at an average price of $44.01 per share. That's about 7.3% of the outstanding float at the beginning of the year.

Suncor is also paying down debt. Net debt dropped by $1.8 billion in the third quarter (Q3) of 2022.

Management is refocusing the business and Suncor is also monetizing non-core assets. The company entered agreements in recent months to sell the Canadian wind and solar assets as well as oil assets in Norway. On the growth side, Suncor announced a deal to pay $1 billion to increase its stake in the Fort Hills oil sands operations by 21.3% to 75.4%.

Another potential disposition, however, won't take place. Suncor has decided to keep its retail operations that include roughly 1,500 Petro-Canada locations. Analysts had expected a sale to generate as much as $10 billion, but the review concluded that investors are best served by maintaining the integrated business structure that includes production, refining, and retail divisions.

Investors who are of the opinion that WTI oil is headed back above US$100 per barrel in 2023 might want to buy Suncor while it remains out of favour. The company has raised the dividend twice this year, and more gains should be on the way, as net debt drops. The payout provides a 4.6% dividend yield at the time of writing.

Enbridge

Enbridge (TSX:ENB) just announced a 3% dividend increase for 2023. This marks 28 years of annual dividend hikes for the energy infrastructure giant.

Enbridge moves about 30% of the oil produced in Canada and the United States, and roughly 20% of the natural gas used by American homes and businesses. The company also has natural gas utilities in Canada, an oil terminal in Texas and recently secured a 30% interest in a liquified natural gas (LNG) terminal being build in British Columbia. Finally, Enbridge has a growing renewable energy group with wind, solar, and geothermal assets.

Demand for North American oil and natural is on the rise, and the trend is expected to continue as countries look to secure reliable supplies after the market disruptions caused by the war in Ukraine.

Enbridge stock trades near $55.50 per share at the time of writing compared to more than $59 in June. The new annualized dividend of $3.55 per share currently provides a yield of about 6.4%.

Is one a better buy for passive income?

Suncor has the potential to deliver larger dividend increases if oil prices remain at current levels or move higher in the next few years. The stock also appears undervalued. Enbridge, however, is probably the safer pick today for investors seeking reliable, high-yield passive income.

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