Better Buy: Suncor Stock or Enbridge?

Description

Last year was tough for equity markets as rising interest rates, high inflation, and the Russia-Ukraine war weighed on investors' sentiments, dragging down stock prices. However, the imposition of sanctions on Russia raised oil prices, benefiting the energy sector, which outperformed the broader equity markets. Amid the favourable conditions, **Suncor Energy** (TSX:SU) and **Enbridge** (TSX:ENB) returned around 41% and 14%, respectively.

Going forward, which of the two stocks would be a better buy right now? Let's look at their growth prospects and valuations.

Suncor Energy

Although oil prices have cooled down considerably from their March highs, analysts are bullish on oil. They cite supply concerns and demand recovery due to the easing of restrictions in China as price drivers. In fact, analysts at RBC Capital Markets believe oil prices have already bottomed out for this year and could only move North. Given its long-life, low-decline asset base, Suncor Energy expects to break even at WTI (West Texas Intermediate) oil trading above US$35/barrel.

With WTI oil currently trading around US$77/barrel and expected to rise further, I believe Suncor Energy will deliver solid financials this year. Besides, the company expects to make a capital investment of $5.4–$5.8 billion this year. Further, management plans to increase its investments by $100 million annually through 2027. Supported by these investments and optimization initiatives, Suncor hopes to grow its EBITDA (earnings before interest, tax, depreciation, and amortization) by 40% over the next five years at a CAGR (compound annual growth rate) of 7%. So, the company's growth prospects look optimistic.

With the strong cash flows over the last two years, Suncor Energy repurchased 6% of outstanding shares in 2021 while targeting 10% in 2022. It has lowered its debt levels and strengthened its balance sheet by divesting its businesses in Norway and the United Kingdom. The company also raised its dividends twice last year, with its yield for the next 12 months currently standing at 4.6%. Despite its healthy growth prospects, SU stock trades at 6.8 times its projected earnings for the next four quarters.

Enbridge

Enbridge is a midstream energy company that transports oil and natural gas across North America. It also has a healthy presence in the renewable energy space. Amid growing energy demand and increased LNG (liquefied natural gas) exports to Europe from North America, Enbridge posted a solid performance in the first nine months of 2022. Its adjusted EBITDA and DCF (distributable cash flow) grew by 12.7% and 10.1%, respectively.

Meanwhile, Enbridge is looking at expanding its asset base to meet production growth driven by rising LNG exports. It has a secured capital backlog of $17 billion. Further, the Tri Global Energy acquisition has strengthened its footprint in the renewables space. Tri Global Energy has a backlog of 3 gigawatts of development projects, which it expects to put into service between 2024 and 2028. So, the company offers solid growth prospects.

Notably, Enbridge has a solid track record of raising its dividends. It has increased its dividends uninterruptedly for the previous 28 years. ENB's dividend yield for the next 12 months stands at an attractive 6.52%. What's more, it trades at a reasonable valuation, with its NTM price-to-earnings standing at 18.

Bottom line

Although Suncor Energy offers higher growth prospects and trades at a cheaper valuation, oil prices will have a direct say in its financials. With central banks focusing on fighting inflation through monetary tightening initiatives, few analysts expect a global slowdown, which could impact oil prices.

So, given the risk associated with the stock, Suncor Energy would be an excellent buy for investors with higher risk-taking abilities. Given its low-risk, regulated business and high dividend yield, Enbridge would be ideal for conservative and income-seeking investors.

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