



3 Stocks to Watch This Week: Suncor Energy, BCE, Fortis

Description

The 2013 fourth quarter results season will move into full swing this week. Among the stocks that we highlighted last week, **Canadian Pacific Railway Ltd** ([TSX:CP](#)) ([NYSE:CP](#)) delivered strong profit growth (as expected) but the stock price nevertheless increased by 7.5% over the week, probably as reward for the operational progress made over the past year.

Potash Corp (TSX:POT) had as expected, a poor fourth quarter, but surprised the market by substantially lowering its profit forecast for 2014. After an initial sharp drop, the share price recovered to end the week only slightly lower on increasing evidence that potash contract prices are stabilising.

AGF Management Ltd ([TSX:AGF.B](#)) announced worse results than expected with profits 37% below the previous year as a result of a 14% decline in the assets under management. Despite the strong balance sheet, the dividend will come under pressure if the profitability of the company does not improve soon. The market did not take kindly to the results and the share price ended the week 9% down.

Stocks to watch closely in the week ahead

Suncor Energy ([TSX:SU](#)) ([NYSE:SU](#)) will announce results on Monday. As one of the top listed companies on the Canadian market and now also part of the Warren Buffett portfolio, it will get considerable attention. The consensus earnings per share expectation for the final quarter is \$0.76 compared to \$0.65 a year ago.

The market will focus on the achievement of production forecasts (545,000 to 590,000 barrels of oil equivalent per day), free cash flow generation and adjustments to the 2014 corporate guidance. The company has a portfolio of quality assets where production will continue to increase over the next 5-10 years, but it has to be done in a profitable manner to lift the below-benchmark return on capital.

BCE Inc. ([TSX:BCE](#)) ([NYSE:BCE](#)) will announce results on Thursday. Adjusted earnings per share of \$0.69 for the fourth quarter is expected compared to \$0.65 a year ago. Early pointers to the success of the \$3.3 billion Astral acquisition in July 2013 will be scrutinised as well as the operational performance of the growing divisions, wireless mobile, high-speed internet and satellite television services and the

struggling fixed line telephone.

The company has a good record of free cash flow generation, of which 65%-75% is paid to investors in the form of dividends. Dividends have grown consistently by 7.7% per year over the past 10 years and the current yield on the stock is 5%. Net debt levels have increased after the Astral acquisition but should be manageable barring a sudden deterioration in the business performance or a sharp increase in interest rates.

We hope for limited excitement when the utility **Fortis Inc.** ([TSX:FTS](#)) announces results on Thursday. Adjusted earnings per share for the fourth quarter of \$0.47 is expected compared to \$0.45 a year ago.

The company has been on an acquisition path recently having closed the CH Energy Group transaction for US\$1.5 billion in 2012 and recently announced a US\$4.3 billion offer for the Arizona-based UNS Energy that is expected to close by the end of 2014. The offer price was at a 31% premium to the market price of UNS and looks expensive. We hope that the company does not overpay for acquisitions, which may impact its ability to sustain the 41-year record of growing dividend payments.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:BCE (BCE Inc.)
4. TSX:FTS (Fortis Inc.)
5. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date

2025/08/24

Date Created

2014/02/03

Author

deonvernooy

default watermark