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3 Reasons to Buy Suncor

Description

suncor Image not found or type unknown Few oil and gas stocks have performed as well as **Suncor Energy** (TSX: SU)(NYSE: SU) this past year. The stock is up more than 25% for the year to date and has rallied nearly 50% from its panic-induced lows from last July.

The company has done most of what it needed to do to win back investors. That said, Suncor still has some work to do, which leaves the company with a lot of untapped upside. Let's take a closer look at the three reasons why this blue-chip energy stock belongs in any portfolio.

1. Its dividend is growing

You wouldn't know it from the outside, but Suncor is in the midst of a quiet revolution.

Since taking the top job at the company in 2011, Chief Executive Steve Williams has chopped capital expenditures, scrapped its planned Voyageur oil sands upgrader project, and sold off its conventional natural gas properties. No longer is its focus on big, bold projects. Rather, Williams has pledged to smooth out capital spending by wringing more bitumen out of existing operations while corralling costs and improving operational reliability at its oil sands facilities.

It's a real break from the Suncor of old. No longer is the company interested in growth for the sake of growth. Instead, every dollar reinvested back into the business must earn a sufficient return or be given back to shareholders.

As the company takes its foot off the growth pedal, it will free up an enormous amount of capital for shareholders. Since 2011, Williams has more than doubled the size of the quarterly dividend to $0.23 per share and repurchased over 11% of the company's outstanding shares. Investors can count on more dividend hikes in the coming years as Suncor expands its oil sands production.

2. Smart money is buying into the plan

If reducing bottlenecks and making incremental improvements sound boring, that's because they are. Financial writers, myself included, want to write about big new oil finds, and engineers would much rather build challenging new oil sands mines.

However, even if skeptics aren't excited about the process, they ought to be impressed by the results. Suncor is no longer just the biggest oil producer in Canada, but also the most profitable. The company has just reported 10 straight quarters of $2.25 billion to $2.50 billion in cash flow.

The smart money is obviously buying in Mr. Williams's plan. Last year, Warren Buffett and T. Boone Pickens made headlines after accumulating shares in the company. According to recent SEC filings, billionaires like Steven Cohen, D.E. Shaw, and Lewis Bacon are also building positions in the stock.

3. No market access issues

Suncor has one advantage over other oil sands producers: its integrated business model.

This is industry jargon to say that the company not only pulls oil out out of the ground, but also refines and markets its production. This means Suncor can unlock every dollar of profit at every stage of the value chain from the well head to the gas pump.

This advantage is more important than ever. Thanks to congested oil pipelines, oil sands bitumen trades at a steep discount to other energy blends. While this costs other producers millions of dollars daily, Suncor can recoup all of these losses from its refining and marketing operations.

The bottom line is this: If you want an exciting oil stock, Suncor isn't for you. However, if you want to own a solid, steady oil business that can be depended on for reliable dividend income, then you'll like this stock just fine.

CATEGORY

1. Investing

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1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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