3 Reasons Why Suncor Belongs in Your Portfolio

Description

In Canada's oil patch, there are hundreds of different companies vying for your investment dollars, each with its own set of pros and cons. Some are fast-growing, but plow all earnings back into the company. Others have great dividends, but often stagnate when it comes to growth.

Crescent Point Energy (TSX: CPG)(NYSE: CPG) is a terrific example of the latter. The company pays a generous 6.2% dividend, but hasn't grown it since 2009. Additionally, investors are rewarded for taking additional shares as dividends, which not only guarantees dilution, but also helps hide the fact that the company doesn't earn enough to cover the large payout.

A better choice in the sector is **Suncor** (TSX: SU)(NYSE: SU). Here are three reasons why.

1. A safe, growing yield

Upon first glance, Suncor's 2% dividend yield doesn't look very impressive. There are dozens of names in the oil patch that pay higher dividends. Additionally, Suncor is the largest company in the sector, meaning it should be in the position to reward shareholders.

Shareholders are being rewarded, though — just not in obvious ways.

Besides the dividend, the company has also bought back more than 80 million of its outstanding shares over the last two years, representing about 5% of the total share count. If you combine that with the dividend, Suncor has close to a 5% true yield.

The dividend is also increasing nicely. Over the last four years, the annual dividend rose more than 80%, from $0.40 per share to $0.73. Look for it to continue rising, since only 30% of the previous year's earnings were used to pay the dividend.

2. Great growth

Since the end of 2010, Suncor has been a solid growth story, which is even more impressive when you consider its size. Revenue in 2010 came in at $32.6 billion and net profit at $3.8 billion. In 2013, revenue increased to more than $40 billion, and while profits didn't rise with it, they were still nearly $4 billion.

In 2014, analysts expect more of the same. Revenue is expected to top $43.5 billion, while profits are finally expected to jump as well, coming in at more than $5.5 billion. This puts the company at a very reasonable 11.5 times forward earnings.

The majority of earnings has been reinvested in the company. Book value rose from $25.75 per share at the end of 2012 to $28.75 today. If the company continues, investors will reap the rewards of higher earnings, and in turn, a higher share price.

3. Great assets

The majority of the company's production comes from the oil sands, which might be Canada's greatest asset. It's certainly the energy sector's crown jewel, so why not invest in the dominant player in the best area?

Besides producing nearly 400,000 barrels of oil per day from its own facilities in the oil sands, Suncor also gets credit for nearly 40,000 more, thanks to its 12% ownership stake in the Syncrude project. The Syncrude project is majority-owned by **Canadian Oil Sands** (TSX: COS).

With all its oil sands properties, Suncor has perhaps the best reserve base of the entire sector. Based on current production, the company has nearly 40 years of reserves left. That's double or even triple the reserves of some of its competitors.

Plus, the company has a significant refinery business, more than 1,500 retail locations, and a growing wind power business. These are all great assets that get lost in the shuffle because production from the oil sands is so impressive.

Suncor is a terrific producer. It dominates the oil sands, but has enough other assets to make it a diversified producer. It has a stellar balance sheet, and is rewarding shareholders with both a rising dividend and share buybacks. It's a great choice for any investor's portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/09/19
Date Created
2014/07/29
Author

nelsonpsmith