Suncor Energy Inc.: This Oil Stock Is Gushing Dividends

Description

When it comes to dividend yields, bigger isn't necessarily better. Case in point: **Suncor Energy Inc.** (TSX: SU)(NYSE: SU).

Buoyed by rising production and energy prices, Suncor has boosted its dividend at an 18% compounded annual clip over the past five years. Lately, those hikes have been getting even bigger. The most recent increase, just last week, was more than 22% — a sign the executives see more good times ahead.

Admittedly, Suncor's 2.6% dividend yield might not be high enough to whet the appetite of the most discerning income investor. However, given the company's solid growth prospects, that payout will almost certainly continue to rise. For long-term investors who aren't spooked by volatile energy prices, Suncor may be one of the best income investments in the Canadian oil patch.

Suncor has several things going for it: a solid growth profile, a winning integrated strategy, and a shareholder-friendly management team.

In the short term, the ramp-up of the company's MacKay Riven and Firebag oil sands projects continues to drive production growth. New initiatives, such as the Fort Hills mining project, give Suncor a long growth runway. Over the next five to 10 years, the company is on track to expand output at a low double-digit clip.

Suncor's integrated business model — industry slang for a company that extracts, refines, and markets its oil and gas — also gives it an edge over the competition. Overall, more than 90% of the company's oil production benefits from higher international Brent pricing. Thanks to this strategy, Suncor's fate isn't tied to the approval of new pipeline projects like Northern Gateway, Keystone XL, or Energy East.

Suncor's second-quarter results confirm this trend. Production volumes from oil sand operations increased to an average of 378,800 barrels per day, compared to 276,600 barrels per day during the same time last year. The cash cost per barrel for oil sand operations decreased to an average of $34.10 per barrel, compared to $46.55 per barrel in the prior year. Overall, free cash flow came in at $3.6 billion for the 12 months ending on June 30th, up 66% from the prior year.

However, perhaps the biggest reason to own the company is its Chief Executive, Steve Williams.

In Canada, shareholders routinely get the short end of the stick. Investor capital is often squandered on unprofitable expansion projects to boost executive egos. The empire-building campaigns of companies like **Barrick Gold Corp** have cost shareholders dearly.

That's not the case at Suncor. Mr. Williams has intentionally abandoned exciting but low-return expansion projects in favour of boring though profitable de-bottlenecking initiatives. Rather than pouring more money into the business, he has chosen to lavish shareholders with dividends and share buybacks.

Don't dismiss Suncor because of its meagre yield. The company's steady expansion and winning strategy means investors can count on more dividend hikes in the years to come. With a shareholder-friendly executive at the helm, this may very well be the best income stock in Canada's energy sector.

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Date
2025/07/05
Date Created
2014/08/06
Author
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