Why Suncor Energy Inc. Belongs in Your Portfolio

Description

Although **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) reported a dip in net earnings of 69% last quarter, free cash flow generation is still estimated to be over $2 billion in 2014, along with an increase of 22% in annual dividends.

This is the beauty of Mr. Market, who seems to punish companies in the short term. For long-term investors, here is why you should be happy with Suncor.

Dividend aristocrat

Suncor is one of the few companies that can be called a dividend aristocrat, meaning it has increased its dividend consistently for decades. For the long-term investor, this is equivalent to gold and a drop in stock prices might provide an even better opportunity to add to your position.

Not only is management increasing the dividend, but the share buyback program is also contributing to increasing shareholder value. In Q2 2014, the company repurchased and retired 6.8 million shares with an additional 2.8 million during the month of July alone.

Considering that capex has been lowered for the remainder of the year, investors can expect a more shareholder-oriented capital allocation in the quarters to come.

High barriers of entry

Suncor is not in the retail industry where anyone can start a competitive business. Building an integrated oil company takes a massive amount of capital, as evidenced by the $61 billion in property, plant, and equipment that the company has on its balance sheet and $6.8 billion in capital expenditure needed on a yearly basis.

Knowing that Suncor is the main oil sands producer in Canada, and that whoever wants to come into the sector will need heavy initial capital, is reassuring for the future of the dividend and the company's earning power.

Shareholder-oriented management

The 2.6% dividend yield might not feel high for some income investors, but the earnings power of the company should not be dismissed.

Contrary to many other firms, Suncor's management is not aiming to boost the size of the company at all costs. Indeed, rather than starting up projects with unreasonable break-even costs, management preferred shutting down projects and taking losses. This is exactly what Suncor's team did last quarter, writing off some assets in Libya and halting the Joslyn Project joint venture with **Total SA**.

Bottom line

Suncor is a great, but boring company. It won't double overnight, but if you hold on to it for the long run, the total return in 15 years will likely be massive. Now might be a good time to open a position, considering that the shares are currently trading at less than its net asset value.

CATEGORY

1. Investing

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

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