



4 Reasons Why Suncor Energy Inc. Is a Great Pick for New Investors

Description

Deciding which stocks to buy is often a difficult decision for new investors. People work very hard to save their investment cash, and they want to be as confident as possible that their investments will perform according to their long-term plans.

As a rule of thumb, it is a good idea to look for stocks that have a wide moat, or a sustainable competitive advantage, in their respective industry. This means other businesses cannot easily enter the market and compete.

Another key point to look for is a proven track record of rewarding investors with consistent dividends and share buybacks. Companies that are well run will give shareholders some of the profits and increase the amount they pay on a regular basis.

Suncor Energy Inc. ([TSX: SU](#))([NYSE: SU](#)) has hiked its dividend by 560% in the past five years, and the company continues to pump out phenomenal free cash flow. Here are four reasons why it should be a new investor's top pick to start a portfolio.

1. Great assets

Suncor is Canada's largest integrated oil company. With 6.9 billion barrels of reserves and 23.5 billion barrels of contingent resources, Suncor owns the assets required to reward long-term investors for decades.

2. Integrated business model

Suncor's vertically integrated business model allows it to make money as the producer, refiner, and retailer of the oil it produces at its massive oil sands operations.

This business model diversifies Suncor's income stream and makes it less vulnerable to volatile fluctuations in the price of oil.

The refining facilities Suncor owns in Montreal should be of particular interest to investors, because

these operations will soon be fully supplied by low-cost crude from western Canada. Inland oil is cheaper than foreign oil, and when **Enbridge Inc** ([TSX: ENB](#))([NYSE: ENB](#)) completes its Line 9 reversal in 2015, Suncor will be able to source most of the crude the refinery needs from operations in western Canada. Suncor is already using rail lines to send crude to Montreal. In fact, it sent 80% more crude by rail in Q2 2014 than it did in the first quarter.

Suncor sells the refined products through its 1,500 Petro-Canada retail and wholesale locations.

3. Efficient operations

Success in the oil production business begins by owning quality reserves and being able to produce crude as efficiently as possible.

In its Q2 2014 earnings report, Suncor reported its cash operating cost per barrel was \$34.10 for its oil sands operations. This is compared to \$46.55 for the same quarter in 2013.

The second part of the success equation is getting the best price possible for oil, and Suncor said it captured global-based pricing, which is the highest price possible, for nearly all of its second-quarter production.

4. Returning free cash flow to shareholders

Suncor continues to reward shareholders through increased dividends and share buybacks. In the Q2 2014 report, Suncor announced it was increasing its quarterly dividend by 22% from \$0.23 per share to \$0.28. At \$1.12 per year, the dividend yields about 2.6%. In 2009, the quarterly dividend was \$0.05 per share.

Suncor also continues to buy back shares. In the latest report, the company said it plans to buy back and cancel as much as \$1.1 billion in common stock over the next 12 months.

The bottom line

Suncor's integrated model gives it a long-term competitive advantage over other oil companies. The company's management has proven it can control costs and is committed to returning increasing levels of free cash flow to shareholders.

About a month ago, I wrote an article about the [reasons for the strength in Canadian oil stocks](#) and advised investors to wait for a pullback. The recent weakness in Suncor's stock should be seen as a good long-term buying opportunity.

For new investors looking to pick up a great long-term stock to initiate their portfolio, I think Suncor Energy Inc. is a solid choice.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)

2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date

2025/09/18

Date Created

2014/08/20

Author

aswalker

default watermark

default watermark