

# Why You Should Buy Suncor Energy Inc. Instead of a Higher-Yielding Energy Company

## Description

In Canada, some very high-yielding dividends can be found in the energy sector. In fact, five out of the biggest 6 dividend yields in the **S&P/TSX 60** index are energy companies.

But you should resist the temptation of these big dividend stocks. Instead, if you're looking to bet on energy, you should go with a proven performer. On that note, below we show why industry giant **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) is a much better option than these other big yielders.

### Suncor: a strong performer

At first glance, Suncor might not seem like a great investment option. Despite a recent dividend hike, the stock still yields less than 3%. But there are some things to like about the company.

First of all, Suncor has a lot of experience in the oil sands, and investors have benefited greatly. Over the past 15 years, its shares have returned a respectable 13% per year. Or put another way, a \$10,000 investment in the company 15 years ago would be worth over \$60,000 today.

Secondly, the company has been showing great financial discipline. Capital spending for 2014 has been cut by \$1 billion, and some costly projects (such as the Voyageur upgrader) have been scrapped in recent years. Suncor instead hopes to increase production by 100,000 barrels per day just from incremental improvements to existing operations. And the balance sheet remains solid, with net debt of \$6.5 billion, not bad for a company valued at nearly \$60 billion.

There are many reasons to believe that energy prices will rebound. Suncor is a great way to make that bet, without having to worry about company-specific issues.

### The problem with these high yielders

As mentioned, five of the top six yielding companies in the TSX 60 are from the energy sector. These five names have yields ranging from just over 5%, all the way to 11.9%. But there are reasons to stay away.

For one, these companies are poor performers, and their collapsing stock prices are part of the reason why their yield is so high. In fact, a basket of these names would be down by roughly 40% over the last three years. They've run into numerous problems, from operational mishaps, to cheap asset sales, to accounting scandals. This is not what you should be adding to your portfolio.

Worse still, some of them have awful balance sheets. For example, **Talisman Energy Inc.** (TSX: TLM)(NYSE: TLM) has nearly \$5 billion in net debt, over 70% of the company's value. This makes it all the more difficult to sustain such high dividend payments.

It's too bad that Canada doesn't have more high-yielding dividends from more stable companies. But that doesn't mean you should gamble on these underperforming energy producers. You should stick with a proven performer like Suncor.

There's another strong company in the energy sector that you should consider. It's also The Motley Fool's top stock pick for 2014. It's revealed in the free report below.

## **CATEGORY**

1. Energy Stocks
2. Investing

## **TICKERS GLOBAL**

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

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