Should You Buy Suncor Energy Inc. on its Latest Pullback?

Description

The recent plunge in oil prices has clobbered the energy patch, and no company has felt the pain more than **Suncor Energy Inc** (TSX: SU)(NYSE: SU).

Since mid-June, shares of the country's largest oil producer have skidded nearly 20%. Shareholders have watched an astounding $9 billion in market capitalization vanish over that time.

Suncor's recent financial results have also been dreadful. Revenue during the third quarter was $10.3 billion, compared to $10.4 billion a year earlier. Net earnings came in at $919 million or 63 cents per share, down from nearly $1.7 billion or $1.13 per share last year.

So, is it time to dump Suncor? Nope. Aside from lower oil prices, the bull thesis here hasn't changed. If anything, there're a couple of reasons why now might be time to buy in.

Suncor is still a source of reliable dividends. And that payout is expected to keep growing. Since taking the helm in 2011, CEO Steve Williams has dialled back the company's expansion plans and vowed to return more cash to investors. In just the past three years, he has more than doubled the size of Suncor's dividend and repurchased over 11% of the firm's outstanding shares.

Suncor typically announces a dividend hike at the start of each year. Analysts expect another double-digit percentage increase next spring, though the actual hike may be less than that. However, management has been clear that sharing profits with shareholders is their top priority.

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Source: Suncor Investor Presentation

Of course, Suncor cannot continue to boost its dividend without growing profits. But while the firm's recent numbers haven't been great, let's take a look at this picture with a wider perspective.

For 2014, analysts expect Suncor to earn about $3.55 a share, up only marginally from $3.13 in 2013. However, it's more than 50% larger than what the company earned per share in 2004. Clearly, Suncor has not been standing still.

That growth should continue. Oil sands production is on track to increase by 45% through 2019. Barring another big drop in energy prices, Suncor is going to be gushing cash flow. That means more buybacks, more dividend hikes, and more acquisitions.

Finally, the outlook for the Alberta oil sands is getting better. A Republican controlled Senate south of the border bodes well for **TransCanada Corporation's** Keystone XL pipeline. **Enbridge Inc** also has plans to add one million barrels per day of export capacity over the next three years.

As kinks in the energy supply chain clear, drillers will begin to access new markets. We're already seeing the price of oil sands bitumen rally against other crude blends. That means Suncor won't just be pulling more barrels of oil out of the ground, but it will likely start earning more on each one produced.

As a dividend investor, I try to focus on the long haul. While the past few years haven't been much fun for shareholders, it would be foolish to count Suncor out. The company has faced adversity before, but it has always emerged stronger. I don't expect this time to be any different.

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