



## Dividend Investors: 3 Reasons to Buy Suncor Energy Inc. Now

### Description

The recent plunge in oil prices has clobbered the energy sector, and no stock 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 fallen nearly 25%! The yield, which moves in the opposite direction of price, has risen to 3.1% from less than 2.3% in just a few weeks.

Time to panic? Hardly. If you believe in buying good companies when their shares are on sale, then Calgary-based Suncor may be worth a look. Here're three reasons why dividend investors should like this stock.

#### 1. The smart money is buying

Suncor CEO Steve Williams is the Toyota Corolla of chief executives; boring but practical. Since taking over in 2011, he has abandoned sexy growth projects for debottlenecking initiatives — industry lingo for squeezing more barrels out of existing operations. While this policy is about as exciting as a mashed-potato sandwich, it provides better returns with less risk.

The new strategy has received the thumbs up from smart money investors. Earlier this month, SEC filings revealed that Warren Buffett increased the size of his stake in the company. As of September, the Oracle of Omaha owned 18.5 million shares valued at US\$670 million.

Other smart money managers are moving into the stock, too. A number of billionaires — including Jim Simons, Ken Griffin, and Steven Cohen — increased the size of their stakes in the firm last quarter. Granted these investors have been wrong so far. But their huge positions indicate that they think Suncor is the best company in the industry.

#### 2. This stock is gushing dividends

Mr. Williams's policy has also freed up a lot of capital for shareholders. Since 2011, Suncor has more than doubled the size of its distribution. Many Bay Street analysts anticipate another round of dividend hikes next spring.

Of course, savvy investors are wondering if the company's payout is sustainable. That said, it only costs Suncor US\$30 to haul a barrel of oil out of the ground. And the firm pays out less than half of its profits to shareholders as dividends.

All of this means Suncor still has plenty of financial wiggle room. While smaller shale drillers may need US\$75 oil to survive, Suncor has the raw scale to make it through the industry's current doldrums.

### **3. The buyback**

However, my favourite part about Suncor is the giant share buyback. Since 2011, the company has reduced its share count by more than 10%. This means that the pie is sliced in fewer pieces, so each piece is worth much more.

Here's an important point about share buybacks: the cheaper the stock price, the more shares the company can repurchase. It sounds odd, but long-term shareholders actually benefit from lackluster returns in the short term. Ultimately, investors will own a larger piece of the company (and earn higher returns).

### **Is Suncor's swoon a buying opportunity?**

If oil prices keep falling, Suncor will not be spared from the pain. That said, the company has a growing distribution, solid balance sheet, and secure place in Canada's oil patch. And while we wait for things to get sorted out in the energy business, that 3.1% yield is attractive.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

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

### **Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **Date**

2025/09/18

### **Date Created**

2014/12/03

### **Author**

rbailleul

default watermark

default watermark