Suncor Energy Inc.: Is it Finally Time for Dividend Investors to Buy?

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is down 25% in the past 12 months, and investors with a bit of cash on the sidelines are looking at the stock and wondering if now is the time to start a position.

Let's take a look at the current situation to see if Suncor deserves to be in your portfolio.

Integrated business model

Most oil producers have watched their share prices drop much more than Suncor's over the past year because they are essentially one-trick ponies and rely exclusively on strong crude prices to cover costs and earn profits.

Suncor is very different because it generates revenue all along the hydrocarbon value chain.

The company is best known for its massive oil sands production facilities, but Suncor also operates a large refining division as well as an extensive network of retail locations.

The four refineries use crude feedstock to produce gasoline, diesel fuel, asphalt, and lubricating oils. Margins depend on the cost of the oil that goes into the plant and the prevailing price when it comes back out as finished product. Accounting practices make it a bit difficult to predict when higher margins are being earned, but the refining division supplies a consistent and reliable source of cash flow.

Suncor also operates more than 1,500 Petro-Canada service centres. As oil prices decline, gasoline prices generally follow suit, and that tends to encourage people to drive more often and buy bigger cars and trucks.

Balance sheet strength

Suncor is in the enviable position of having substantial funds available to weather the current storm. The company finished Q1 2015 with about $5 billion in cash and cash equivalents and only $13 billion in long-term debt. The debt level is quite modest given the size of the company.

As the oil rout continues to take its toll on highly leveraged energy companies, Suncor will be in a great position to acquire some top assets at very attractive prices.

Reliable dividend and share buybacks

Suncor pays a dividend of $1.12 per share that yields about 3.4%. The company has a strong track record of increasing the distribution, and investors can sleep well at night knowing the payout is safe. Suncor also has an aggressive share repurchase program that is equally important for long-term investors because they get a bigger piece of the pie every time the company reduces the number of outstanding shares.

Risks?

Crude prices are still volatile and the latest retreat could continue for some time. Saudi Arabia produced a record 10.6 million barrels of oil in June and appears committed to win its game of chicken with American shale producers.

At the same time, the world should prepare for a renewed flood of supply coming from Iran.

In Canada Suncor's refining operations are dealing with delays in the reversal of the Line 9 pipeline. The project will bring low-cost western Canadian crude to Suncor's Montreal refinery.

The NDP win in Albert is also cause for some concern, especially if the province decides to be aggressive on changes to royalty rates.

Is Suncor a good buy?

Investors with a long-term horizon should be comfortable holding the stock at current levels, but more volatility is likely in the near term. The company's integrated model provides it with a good hedge and shareholders can simply sit back and collect the dividend while they wait for better days in the energy sector.

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1. Dividend Stocks
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