3 Reasons Why Suncor Energy Inc.'s Dividend Is Perfectly Safe

Description

Over the past year, we've seen numerous energy companies slash their dividends. But **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) has held its payout firm throughout. In fact, there's never been any real doubt about the company's dividend, which yields a respectable 3.4% today.

So, what separates Suncor from the rest? Below, we take a look at three key factors.

1. An integrated company

Some Canadian energy companies are happy just to pump oil out of the ground. And for many years, so was Suncor. But the company added a slew of refineries and gas stations with its 2009 purchase of Petro Canada. So, now the company is completely integrated, which is a big plus in this oil environment.

Let's start with one obvious reason: stability. Oil refineries and gas stations tend to be much less up and down than energy extraction, helping Suncor to post smoother earnings than its peers.

Gas stations are also doing well in the current environment because gas prices haven't fallen as quickly as oil prices. This allows companies like Suncor to make some extra margin.

So, Suncor should continue to post much smoother results than its rivals. That's good news for the dividend.

2. A strong balance sheet

If you look at which energy companies have been the worst affected by falling prices, it's invariably the ones with weak balance sheets. Many of these firms are even facing bankruptcy.

But Suncor is a very different story. The company's $9.5 billion in net debt is less than 25% of shareholder's equity, and less than 20% of its market capitalization. Over at **Cenovus Energy Inc.**, whose dividend is on shakier ground, those numbers are 37% and 28%, respectively. And the figures are far worse at many Canadian energy companies.

This strong balance sheet is a big advantage for Suncor, giving it plenty of flexibility. Importantly, the company can raise plenty of extra capital if it needs to. And that means the dividend is that much safer.

3. A reasonable payout

There's another very simple reason why Suncor's dividend is sustainable: the company simply doesn't have that big of a payout. To illustrate, the company raked in nearly $1.5 billion in cash flow in the first quarter (even after oil prices had already declined), and paid out only $400 million in dividends.

So, even if Suncor's cash flow deteriorates further, the company will still be able to afford its dividend. In the energy sector, that's not something that can be said very often.

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