



Is Suncor Energy Inc. Really a Safe Energy Bet?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is Canada's largest integrated oil company and towers above the field as one of the top businesses in the industry, but some investors are worried about the future. It's easy to understand why.

Oil prices are drifting back towards \$40 per barrel, and pundits continue their fierce debate about the market's future direction.

At the same time, the Canadian political scene is undergoing unprecedented change. An NDP win in Alberta has already rocked the oil and gas sector, and polls suggest the NDP could even win next month's federal election. Assuming the party would follow through on its tough-on-oil positions, times could get even tougher for the patch.

As a result, many investors are steering clear of the energy space altogether, but those who believe in the long-term oil story are looking for special opportunities.

Here's why Suncor is one name that rises above the rest.

Earnings stability

Suncor reported solid Q2 2015 operating earnings of \$906 million, or \$0.63 per share. This surprised the market because the company's peers are all struggling.

Suncor's production results are certainly feeling the effects of low prices, but the company also has large refining and retail operations that provide a great hedge against the volatility in the oil market.

In fact, the refining and marketing units delivered \$631 million of the Q2 earnings.

Suncor owns four larger refineries that produce a variety of end products such as diesel fuel, gasoline, asphalt, and lubricants. As a producer, oil prices are a negative, but as a refiner, the weakness in the market can actually be a benefit. With lower input costs, Suncor's refineries have an opportunity to deliver higher margins on the finished products.

Low oil prices also tend to be positive for gas stations and Suncor operates about 1,500 of them under its Petro-Canada brand.

Low gasoline prices entice drivers to take more road trips, and a prolonged reduction in fuel costs helps convince people to splurge on the big gas-guzzler they have always wanted but couldn't afford to drive.

Dividend growth

The words *dividend* and *growth* are not often mentioned together these days when an energy company is being analyzed, but Suncor continues to buck the trend and actually hiked its payout in the last earnings report.

The company now pays a quarterly dividend of \$0.29 that yields about 3.5%. Suncor also restarted its share-repurchase program.

Should you buy Suncor?

Further weakness in oil prices will bring the stock down with the rest of the industry, but investors should look beyond the short-term speed bumps. If you are a long-term oil bull, Suncor is a strong bet right now, and you can collect a solid yield while waiting for better times.

CATEGORY

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2. Investing

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