Should Suncor Energy Inc. Be in Your Dividend Portfolio?

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) remains one of the few bright spots in the Canadian oil patch, and dividend investors are trying to decide if this is a good time to add the stock to their holdings.

Let's take a look at Canada's largest integrated oil company to see if it deserves to be a top dividend pick.

Balanced revenue stream

Suncor's unique business model is the reason why the stock has weathered the storm so well over the past year.

The company is primarily known for its massive oil sands operations, but Suncor also has significant refining and retail assets. The midstream and marketing divisions provide a natural hedge against low oil prices.

The company's four refineries use crude feed stock to produce end products such as gasoline, diesel fuel, asphalt, and lubricants. When oil prices are low, the refinery enjoys lower input costs and can earn significant margins when the market spread widens between the WTI-based feed stock price and the Brent-based pricing for the finished products.

Complicated accounting procedures make the margins tough to predict, but Suncor's refineries are doing well, and even better days could be ahead.

Suncor has been sending cheap western Canadian oil by train to supply its refining facilities in Montreal. That is going to change now that **Enbridge's** Line 9 reversal has finally been approved. In the coming months, Suncor will be able to move oil to the refinery via the Line 9 pipeline, and that should reduce input costs.

Suncor also operates 1,500 Petro-Canada retail stations, which are benefiting from lower oil prices because gasoline and diesel prices have dropped. That entices people to drive more and to buy vehicles with bigger engines.

How important are the refineries and the retail operations?

In its Q2 2015 earnings statement, Suncor reported operating earnings of $906 million. The marketing and refining business units accounted for $631 million of that number.

Dividend

Suncor raised its dividend when it reported the Q2 numbers. That's a unique situation in the oil patch and it attests to the value of the integrated model. The company pays a quarterly distribution of $0.29 per share that yields 3.2%.

Growth

Suncor is sitting on a $5 billion mountain of cash and has plans to spend it. The company recently purchased an additional 10% stake in the Fort Hills oil sands project from partner **Total E&P**, giving Suncor control of nearly 51% of the project.

Suncor is also making headlines right now as it tries to pull off a $4.5 billion all-stock offer for **Canadian Oil Sands Ltd.** Suncor and Canadian Oil Sands are partners on the troubled Syncrude oil sands venture. If the deal goes through, Suncor would control 49% of Syncrude.

Should you buy Suncor?

The stock trades at a lofty 27 times forward earnings, which is certainly steep, but earnings are strong, the dividend looks safe, and the company is trying to pick off great assets at fire-sale prices.

If you believe oil has bottomed and is destined to return to its former levels, Suncor looks like a solid investment. As far as oil producers go, this is as safe a bet as you will find, but you are also paying up for that security.

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