Suncor Energy Inc. CEO Vows to Protect the Dividend

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) has made growing its dividend a priority in recent years, boosting its quarterly payout from just $0.11 in 2011 to $0.29 today. Falling energy prices have called into question most dividends in the space as numerous companies of all sizes have had to reduce or even eliminate payouts.

Suncor shareholders can feel a bit of comfort, however, as last week the company's CEO vowed to protect the dividend, even if energy prices continue to fluctuate wildly.

While that sounds heroic, here's why Suncor will likely have no issues keeping income investors happy.

Reliable cash flows

While GAAP earnings have come under pressure (last quarter the company posted an operating loss of $0.02 per share), dividends are ultimately paid out of cash, not the income statement. In spite of accounting losses, cash flow from operations still totaled $1.3 billion ($0.90 per share), down just slightly from 2014 fourth-quarter levels of $1.5 billion.

"In 2015," Suncor's CEO boasted on the most recent conference call, "we generated cash flow that exceeded our annual sustaining capital and dividend commitments". Even with a 3.6% yield, dividends only amounted to $419 million, which is well covered by cash flows.

One of the biggest reasons why cash flows remain strong is Suncor's diversified business model. On the production side, it generates a bulk of revenues from its stake in the Syncrude oil sands project. Operating costs for the company's oil sands interests fell to $28 per barrel, down from $34.50 just one year ago.

The company also has a significant refining business. When oil prices collapse, refining margins typically rise–a major reason why integrated oil companies such as **Exxon Mobil Corporation** and **Chevron Corporation** have fared much better than smaller, less diversified players. Operating earnings for its refining segment amounted to $498 million last quarter. Without that income stream, Suncor's operating loss would have been 20 times bigger.

Core property positioned well for future earnings

As mentioned, a big part of Suncor's oil production comes from its interest in the Syncrude oil sands project. Recently, the company announced a $6.6 billion takeover of **Canadian Oil Sands Ltd**. Because Canadian Oil Sands was also a partner in the project, Suncor's stake will be boosted to 49% after the acquisition, which is up from just 12%.

Syncrude's partners are excited for Suncor's enlarged stake. **China Petroleum & Chemical Corp.** , Asia's biggest oil refiner, is also the fourth-largest owner of Syncrude with a 9% stake. "Hopefully this will garner a lot more interest from Suncor," said China Petroleum's CEO.

With the takeover, the project is now in the hands of more profitable, better managed partners, including Exxon-backed **Imperial Oil Limited,** which has a 25% stake.

Dividend has long-term viability

Earnings have been crushed by a variety of non-cash accounting charges, including a $1.6 billion impairment charge. Underlying cash flows, however, continue to show the strength of Suncor's business model–specifically, its diversified approach. With lower capital expenditure needs this year and a more focused development plan at its Syncrude property, the company should have no issue backstopping its reasonable 3.6% dividend.

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Date
2025/08/26
Date Created
2016/02/08
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