



## Attention Income Investors: Get a 12.3% Yield From Suncor Energy Inc.

### Description

There are a lot of reasons to be bullish on **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) as an investment for the next decade or two.

Firstly, and perhaps most importantly, Warren Buffett owns a bunch of shares via his company, **Berkshire Hathaway**. According to Berkshire's latest 13F filing with the SEC, Buffett owns 30 million Suncor shares—a stake worth more than \$1 billion.

Suncor is also using the downturn in the energy sector to make acquisitions. It launched a hostile takeover attempt of Canadian Oil Sands in 2015, eventually sweetening the offer to get the deal done. By acquiring its partner in the Syncrude oil sands project and acquiring a 5% stake from **Murphy Oil**, Suncor will now be the majority shareholder with a 54% position.

It doesn't look like Suncor will stop there. According to sources close to management, the company is likely to make acquisitions in either the North Sea or eastern Canada, buying cheap assets from distressed buyers. These deals could be worth billions if willing sellers can be found.

Because Suncor's share price didn't fall nearly as much as some of its peers—approximately 20% from mid-2014 highs to today—the company can use its equity as a way to pay for acquisitions without taking on any additional debt.

And while investors wait for oil to come back and shares to recover, Suncor pays a 3.3% dividend. Unlike most other dividends in the energy sector, Suncor not only paid faithfully through the bad times, but it looks poised to continue paying for years to come.

While 3.3% is a nice payout in the energy sector, it pales in comparison to some of the high-yield options out there. Here's how investors can really supercharge their payout.

### Using options

Usually, the options market is dominated by speculators looking to turn a small cash outlay into a big payoff. But there's a place in the options market for long-term investors, too.

The strategy is called writing covered calls, and it's so simple even a teenager could successfully pull it off.

Here's what you do. First, you'll need to hold Suncor shares. Then you go to the options market and sell a call option, collecting a premium in exchange for agreeing to sell Suncor shares at a certain price on a certain day.

Let's look at an example. Today, an investor can get a \$0.26 per share premium in exchange for agreeing to sell Suncor shares at \$36 each on July 15.

One of two outcomes will occur. If shares don't rally from today's price of \$34.88, the investor will be able to keep the premium with no consequences. But if shares rally above \$36, a forced sale will happen.

If that happens, the investor will be forced to book a profit of \$1.38 per share, consisting of \$1.12 of capital gains and the original \$0.26 option premium. That's a return of 3.96%, which isn't bad for holding less than a month.

### **Repeat**

Because Suncor has monthly options, investors can pull off this trade up to 12 times per year.

Based on current option prices, a covered-call strategy on Suncor shares has the potential to generate \$3.12 per share in annual income. That's a yield of 8.94% from the strategy alone.

But remember, Suncor pays a 3.34% dividend. Add the two sources of income together and investors get a total return of 12.3% annually.

This is the kind of income that can really make a difference. An investment of just 300 Suncor shares has the potential to generate more than \$100 per month in dividends. You won't find a source much better than this.

Income investors who ignore a covered-call strategy do so at their own peril. It's that simple.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

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