4 Reasons to Make Suncor Energy Inc. Your Top Oil Stock

Description

Contrarian investors are watching the sell-off in the oil sector with greedy eyes.

Let's take a look at the reasons why **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) might be an attractive pick on further weakness.

Diversified businesses

Suncor is Canada's largest integrated energy company with operations all along the oil value chain.

This diversified revenue stream is a big reason the stock has held up so well throughout the oil rout and is still a core reason for owning the shares.

Suncor's upstream operations essentially consist of the company's oil sands assets. The oil crash has forced producers to take a hard look at expenses, and Suncor's management team has done a good job of reducing oil sands operating costs.

In fact, Q4 2016 cash operating costs were down to $24.95 per barrel, compared to $28 per barrel the previous year.

Suncor also owns four large refineries, and a retail business that includes more than 1,500 Petro-Canada service stations.

The refining and marketing group provides a nice hedge during difficult times in the upstream segment.

Production growth

Suncor is growing its business through a combination of strategic acquisitions and organic development. Oil sands production hit a record 504,900 barrels per day (bbl/d) in 2016.

The company was successful in its efforts to purchase Canadian Oil Sands last year in a deal that has given Suncor a majority interest in Syncrude.

Suncor also acquired an additional stake the Fort Hills development in 2016, bringing its ownership position to about 51%. Fort Hills is expected to begin production by the end of 2017.

In addition, the Hebron offshore project is scheduled to go online later this year.

Strong balance sheet

Suncor finished 2016 with $3 billion in cash and cash equivalents and had about $6.5 billion in available credit facilities at the time the 2016 year-end report was released.

This provides Suncor with the firepower to finance ongoing capital requirements for its development projects as well as to take advantage of any additional opportunities to add new resources.

Dividend Safety

Suncor recently raised its quarterly dividend by 10% to $0.32 per share. The distribution should be safe and currently provides a yield of 3.2%.

Should you buy?

Oil prices are coming under pressure again as rising U.S. production continues to provide a headwind against OPEC's efforts to reduce global supplies.

Some analysts see WTI oil rebounding to US$70 by the end of the year, while others say WTI could be headed back to US$40.

Where we go from here is anyone's guess, but investors who believe oil will recover over the medium term might want to start adding Suncor to their portfolios on further weakness.

The company can ride out another downturn, and shareholders get paid a nice dividend while they wait for a recovery.

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