Dividend Investors: Should You Buy Suncor Energy Inc.?

Description

With oil prices continued to trade in a range with no clear visibility, it's tough for investors to make up their minds on energy producers.

Goldman Sachs Group Inc., a leading global investment bank, lowered its forecast for oil prices last month for the next quarter as it noticed a surge in shale drilling and an unexpected increase in production from Libya and Nigeria.

The investment bank now expects oil prices to average $47.50 per barrel for WTI crude — down from its previous estimate of $55 a barrel for the three-month period. With oil trading under US$50 a barrel, many oil producers will continue to struggle to generate enough cash flow to pay for dividends and meet their debt liabilities at the same time.

In this fluid situation for oil markets, you've to be careful which stock you pick.

Alberta-based **Suncor Energy Inc**. (TSX:SU)(NYSE:SU) is a stock in the Canadian oil sands patch that I've started to like.

Suncor is the first company to develop the oil sands, creating an industry that is now a key contributor to Canada's prosperity. Suncor holds one of the largest positions in the oil sands, making up 6.9 of the 7.7 billion barrels of Suncor reserves. Suncor also owns and operates four refineries, Canada's largest ethanol plant, wind farms, and 1,500 retail outlets.

Successful cost cutting

Nobody knows for sure when the next bull run in oil prices will be, but the biggest factor that will separate wheat from the chaff is the management that has been able cut costs to survive in this glut.

There is no doubt that Suncor has turned the corner on this front. With $39 a barrel in 2011, Suncor was able to cut its production cost to ~$26 a barrel by 2016. This was achieved by a simultaneous improvement in oil sands production capabilities. The company forecasts its oil production will hit ~800 million barrels per day in 2019 from ~580 million barrels in 2015.

Robust capital-return program

For dividend investors, Suncor's 3.25% yield may not be a too exciting when you compare it with the top names offering much juicier payouts. But when it comes to reliability and sustainability of payouts, Suncor is probably ahead of the pack.

The company has been increasing dividends for the past 15 years. The latest was in the first quarter of 2017, when the quarterly payout was increased by 10% to $0.32 a share.

Besides regular dividend hikes, Suncor also has a robust share-buyback plan which will allow the company to repurchase $2 billion of its shares in one year. Share buybacks are great for investors as they boost share prices which are undervalued.

Is Suncor a good buy?

No one can predict where oil prices are going next. But if you're a long-term investor looking to add a good quality dividend stock in your portfolio, then you should consider Suncor. I think patient shareholders will benefit from Suncor's efficient management, growing production, dividends hikes, and a share-buyback program.

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