



Suncor Energy Inc.: A Top TFSA Pick?

Description

Canadian investors are searching for quality stocks to hold inside their TFSA portfolios.

The strategy is a wise one, as all dividends and capital gains earned inside the TFSA are yours to keep. That's right; the tax authorities don't get any of your profits.

Let's take a look at **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) to see if it deserves to be on your buy list today.

Diversified business model

Suncor is primarily known as an oil sands giant, but the company also owns exploration and production assets in Canada and overseas as well as refineries and more than 1,500 Petro-Canada retail locations.

The downturn in the oil sector has put pressure on margins in the oil sands operations, but the other business segments have helped offset the pain. For example, the company reported Q2 2017 net earnings of \$435 million, despite an operating loss of \$277 million in the oil sands segment.

This is the main reason Suncor's stock price has held up so well through the downturn, as compared to the pure-play producers, who have lost a significant part of their market capitalization.

In fact, Suncor is trading at \$39.50 per share at the time of writing, which isn't too far off the \$44 per share investors paid three years ago, right before the bottom fell out of the oil market.

Growth

Suncor has taken advantage of its strong balance sheet to pick up strategic assets at attractive prices in the past couple of years, including the acquisition of Canadian Oil Sands.

As the market recovers, Suncor should see strong returns on these investments.

In addition, Suncor has organic projects on the go that have the potential to boost revenue and cash

flow significantly in the coming years.

The Hebron offshore platform is now in place, and Suncor says the facility should start producing oil by the end of 2017. Suncor's Fort Hills joint-venture oil sands project is also on track to produce its first oil by the end of the year.

Dividends

Suncor continues to raise its dividend, which is rare in the oil patch these days. The current quarterly payout of \$0.32 per share provides a yield of 3.25%.

The company's strong balance sheet should ensure the distribution is safe, although another extended downturn in oil prices could put distribution growth on hold.

Should you buy?

Investors have to be long-term oil bulls to own any of the energy companies today. If you are in that camp and are looking for a stable name, Suncor is an attractive pick that pays a decent dividend, while you wait for the sector to improve.

CATEGORY

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Date

2025/08/23

Date Created

2017/09/05

Author

aswalker

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