



Dividend Income: Time to Buy Suncor Energy Inc. Stock?

Description

Oil bulls are having a very boring time.

Despite an impressive growth picture in the developed world, oil prices have been stubbornly trading in a range for the past year. Their \$45-60 range doesn't look exciting for many energy producers.

Despite this general disappointment, however, there have been a few energy producers that have turned the corner by successfully cutting their production costs and shunning less-productive assets.

Canada's **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is among them. You won't feel too excited by looking at its share performance. Suncor is down about 10% to trade at \$39.50 a share at the time of writing.

But if you dig a little deeper, you'll realize that Suncor stock is actually doing pretty well. During the past five years, Suncor stock handed in 17% total returns when compared to independent oil and gas producers.

The reason?

Many investors usually forget that Suncor isn't only an oil play. It has a very diversified business which continues to produce cash even when oil prices are depressed.

With oil exploration assets in Canada and abroad, Suncor also owns refineries and 1,500 Petro-Canada retail locations. This diversification helps Suncor to fare much better in oil price downturns.

Another reason that makes Suncor stand out among other oil players is its success on both cost and production fronts.

From \$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.

Dividend growth

Production growth and lower costs have enabled the company to continue expanding its dividend, even while oil prices remain depressed. Since 2013, Suncor's dividend payout has grown 60% to \$0.32 a share.

And the company hasn't miss a dividend increase in the past 15 years. The latest increase was in the first quarter of 2017, when the quarterly payout was increased by 10%.

Suncor is a fantastic turnaround story in the Canadian oil patch, showing investors that it can survive and create value for its shareholders. Nobody knows when the oil markets will turn for the better, but having some exposure to this important segment of the Canadian economy isn't a bad idea for income investors.

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 that are undervalued.

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