



Suncor Energy Inc.: A Top Dividend Stock to Benefit From Rising Oil Prices

Description

Oil prices are on a recovery path again, and this time it is a more solid recovery that signals a change in the medium-term outlook for the commodity.

On October 30, oil prices surged to the highest level in eight months on optimism that world largest producers are serious to meet their production cut promises.

Light, sweet crude for December delivery rose to US\$54.09 a barrel on the New York Mercantile Exchange, trading at the highest level since February. Brent, the global benchmark, gained to \$60.65 a barrel, hitting another two-year high.

This is a positive development for oil bulls, who are looking for opportunities in the market to invest in solid oil producers to earn regular dividend income.

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is one energy producer I have been [recommending](#), because it stands to benefit the most in any meaningful recovery in oil prices.

Here is why.

Operational restructuring

Suncor is one of those companies that took the prolonged downturn in oil prices as a challenge to improve its operational efficiency and cut costs where it could. After five years of restructuring and re-balancing, Suncor is in a much better position to make the most of its invested dollars.

With \$39 a barrel in 2011, Suncor was able to cut its production cost to ~\$22 a barrel in the third quarter — the lowest rate in a decade.

Diversification

Suncor is a great diversification play in the Canadian oil sands. The company not only holds the largest reserves in the oil sands, but it also owns and operates four refineries, Canada's largest ethanol plant, wind farms, and 1,500 retail outlets.

As the oil prices recover and refining margins strengthen, Suncor is in a much better position to produce more cash from its diversified operations than a normal oil producer. Refinery utilization in the third quarter was 100% with throughput rising to 466,800 barrel a day.

Superior growth in earnings

For income investors, these improvements mean [better earnings](#) and more upside potential for the future.

In the third quarter, for example, earnings per share rose to \$0.78 from \$0.24 a share when compared to the same period a year ago.

Cash flow from operations was another bright spot in the recent quarter, which allowed the company to cover its capital spending and buy back \$282 million worth of its shares. At the end of the quarter, the company had \$2.76 billion in cash with a healthy net debt-to-capital ratio of 22.4%.

The bottom line

Trading at \$43.40 at the time of writing, and with a dividend yield of 2.95%, Suncor stock is one of the best investments for dividend investors seeking to add a quality energy stock. Suncor is in a good position to grow its payout and provide capital gains after successfully riding through the oil downturn.

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Date

2025/08/25

Date Created

2017/11/04

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