Suncor Energy Inc. Raises Dividend 12.5%: Time to Buy?

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) isn't widely viewed as a dividend-growth stock, but that may be starting to change.

Let's take a look at the energy giant to see whether it deserves to be in your portfolio.

Strong results

Suncor just reported impressive Q4 2017 results. The company generated record funds from operations of $3 billion, supported by strong performances in both the oil sands operations and the downstream business units.

Net earnings for the quarter came in at $0.84 per share compared to $0.32 per share in the same period last year.

Total upstream production was slightly lower than Q4 2016, but the company continued to make progress on its efforts to improve efficiency and reduce expenses. Cash operating costs in the oil sands segment fell to $24.20 per barrel compared to $24.95 in the same quarter last year. This is the lowest cost structure the company has achieved in the fourth quarter in more than a decade.

For full 2017 results, the oil sands cash operating cost per barrel came in at $23.80, down from $26.50 in 2016.

So, things are improving on the operational side of the upstream business units.

Growth

Suncor took advantage of the downturn to add strategic assets at attractive prices, including the takeover of Canadian Oil Sands, which gave Suncor a majority stake in Syncrude.

The company also pushed ahead with large organic developments, including Fort Hills and Hebron. Both projects are now in production, and investors should see the benefits of higher output as a result.

The timing for their completion was perfect, as oil prices have recovered significantly in the past six months.

Integrated business structure

Suncor also owns large refineries and operates roughly 1,500 Petro-Canada service stations. These downstream assets offer a nice hedge against tough times in the production segment and are a big reason that Suncor's share price have held up so well through the oil rout.

Dividend growth and share buybacks

Suncor does a good job of sharing profits with investors. The company bought back $1.4 billion in outstanding shares last year and paid out more than $2 billion in dividends.

The quarterly dividend has just been increased from $0.32 per share to $0.36, and the board has approved a new $2 billion share repurchase plan that will commence in May.

At the time of writing, Suncor's stock trades for $43 per share. Investors who pick the stock up at this price are locking in a 3.3% yield based on the new dividend.

Should you buy?

Suncor stands out among its peers in the energy segment. The integrated business structure provides some protection against downturns in oil prices, and the company's strong balance sheet gives it substantial firepower to take advantage of acquisition opportunities.

If you have some cash on the sidelines and are looking for an income stock to add to your portfolio, Suncor deserves to be on your radar.

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