Suncor Inc.: A Dividend Stock to Hold for Decades

Description

Canadian energy companies are facing one of the toughest times in their recent history. Despite a strong rebound in oil prices this year, Canadian energy stocks have lagged their global counterparts.

Though we can't paint every energy stock with the same brush, their problems are similar. Oil producers can't ship their oil to the markets because pipelines are full and new projects are stalled due to political opposition.

Pipeline companies are struggling to gain approval for new projects in Canada due to staunch opposition from environmental groups. Tight pipeline capacity has made a price discount for Canadian heavy oil more severe.

These issues — which aren't going to disappear anytime soon — have depressed the price of their shares, making some stocks extremely attractive for the buy-and-hold investors.

Let's take a deeper look at Suncor Energy Inc. (TSX:SU)(NYSE:SU), the biggest oil sands producer, to see if it offers any value on today's price.

Suncor

Suncor is Canada's integrated energy company with a portfolio of high-quality assets, including oil sands extraction, refining, and marketing the energy products to industrial, commercial, and retail customers. In Canada, Suncor operates more than 1,500 Petro-Canada stations.

Since the 2014 oil downturn, Suncor has undertaken an aggressive cost-cutting program. During the past five years, Suncor's cost to dig a barrel of crude oil has fallen to $23.80 in 2017 from $37 in 2013, representing the lowest level achieved in more than a decade.

When oil was trading close to $60 a barrel, Suncor expected to generate over $10 billion in funds from operations in 2018, thereby giving it a cash flow yield of ~15%. But that forecast could be revised upward in the company's first-quarter earnings report given oil's surge to more than $68 a barrel at the time of writing.

The latest jump in oil prices came on the heels of a report that Saudi Arabia would be happy for crude to rise to $80 or even $100, a sign that Riyadh won't seek changes to OPEC's supply-cutting deal even though the agreement's original target is now within sight.

Trading at $48.70 and with an annual dividend yield of 2.96%, Suncor stock is in recovery mode after coming under pressure this year. Its stock is now trading 4% higher for the year amid talks of the federal government intervention to settle Canada's pipeline dispute and speed up the construction of new pipeline capacity.

The bottom line

There is no quick fix to Canada's oil sector woes, and I don't see oil-sand stocks outperforming in the near future. That said, I also believe that a bottom has already been reached and that the next move will be higher. In this case, it makes sense for income investors to do some bottom fishing and add some quality stocks, such as Suncor, to their portfolios.

Suncor has a solid history of rewarding investors with growing dividends. This year Suncor hiked its quarterly dividend by 12.5% to $0.36 per share, marking the 16th year of consecutive annualized dividend increases.

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hanwar