



A Top Dividend Stock That Deserves a Place in Your TFSA

Description

I usually don't recommend volatile oil stocks for investors who are building their savings through a Tax-Free Savings Account (TFSA). That space should be filled with less cyclical and stable dividend stocks that are famous for growing their payouts steadily.

But **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), Canada's biggest oil sands producer, is an exception due its stable business model and its ability to reward investors regularly. Let's have a deeper look at why this stock might be a good fit for your TFSA.

Business model

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.

During the oil market slump in 2014, Suncor used its cash to acquire assets in oil sands that were selling cheap, including a \$4.2 billion deal to acquire rival Canadian Oil Sands Ltd. in 2016. The company's expanded its asset base, and its diversification has positioned the company to perform better than other oil players, especially in an environment that is not very conducive for Canadian oil producers.

Despite pipeline bottlenecks, which are severely impacting oil producers' ability to ship oil south of the border, Suncor posted a first-quarter profit that beat analyst expectations, as improved crude oil pricing and higher refining margins outweighed lower production.

The company's operating profit, which excludes one-time items, jumped 21% to \$985 million, or \$0.60 a share, in the first quarter. Analysts had predicted earnings of \$0.52 a share.

"The value of our integrated model was front and centre this quarter as strong financial results from our downstream and offshore assets helped to offset the impact of lower oil sands production, and our refineries were able to fully capture the lost value associated with unfavourable heavy crude differentials at oil sands," said Steve Williams, president and chief executive officer, in the earnings

statement.

Reliable dividend payer

For your TFSA, Suncor stock is a great addition. The company has been sending dividend cheques to investors for about quarter a century. That long track record suggests that its revenue generation capacity is strong enough to withstand the ups and downs in the oil market.

During the first quarter of 2018, Suncor approved a 12.5% hike in its quarterly dividend and an additional \$2 billion in authority for share repurchases. The company also repurchased and cancelled \$389 million of its own shares in the first quarter for a total of \$1.8 billion to the end of the quarter.

The bottom line

Trading at \$49.13 and with an annual dividend yield of 2.90%, Suncor stock is now trading 6% higher for the year amid talks of the federal government intervention to speed up the construction of new pipeline capacity. Investors probably have missed the bottom its stock hit in March. But I think Suncor is still an attractive buy for income investors, given the company's consistent record of outperforming and providing steady dividend income.

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