TFSA Investors: Should Suncor Inc. (TSX:SU) Stock Be in Your Dividend Portfolio?

Description

The latest pullback in the energy sector has Canadian TFSA investors kicking the tires on some of the country's top stocks as they seek out reliable yield and a shot at some capital gains.

Let's take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) to see if it deserves to be on your buy list.

Steady performer

Suncor's share price held up reasonably well during the oil rout and has since rebounded to multi-year highs amid a recovery in the market over the past 12 months.

The secret to the success lies in the fact that Suncor entered the downturn with one of the strongest balance sheets in the patch, sitting on billions in cash. As highly leveraged peers got into trouble, Suncor stepped in and scored some great additions to the resource base at attractive prices. The most notable was the acquisition of Canadian Oil Sands that gave Suncor a majority interest in Syncrude. The plant had a major power outage this summer that shut down the entire operation, but Suncor said the situation is being addressed and Syncrude should be back at full capacity by the end of September.

Suncor also pursued smaller deals, adding to its ownership of Fort Hills and taking positions in international offshore opportunities.

Growth

The large cash position also allowed Suncor to push ahead with two major organic development projects in Canada. Both Fort Hills and Hebron went into production at the end of last year, and the two facilities are ramping up to capacity output ahead of guidance. Luck played a part in the overall picture, as these developments have come online just as the oil market is recovering.

In addition to the production business, Suncor also owns four large refineries and a network of more than 1,500 retail locations. Cash flow from the downstream assets provides a nice hedge against turmoil in the oil market, and these businesses help set Suncor apart from many of its peers.

Dividends

Management is bullish on the outlook for production growth and cash flow, especially if WTI oil prices continue to trade at or above the range we have seen in 2018. Suncor raised its dividend every year through the downturn, and increased the payout by 12.5% for 2018. At the time of writing, that's good for a yield of 2.8%.

Suncor is also spending more money on share buybacks. The company recently increased the budget for share repurchases to $3 billion from $2.15 billion. This is a good sign for investors and could indicate that adequate additional cash flow will be available for another large dividend hike next year.

Risks

Pipeline challenges continue to be an issue for the Canadian oil patch, as witnessed with recent setbacks for both Trans Mountain and Keystone XL. Suncor says it will not move ahead with any new oil sands expansion projects until it sees progress on the pipeline situation. However, the CEO also recently said the company's 3-5 year outlook is unchanged.

Should you buy?

Suncor is a top-quality company with a strong balance sheet, great assets, and significant production growth opportunities. Dividend increases should continue in the coming years, and investor could see the stock move steadily higher on an extension of the recovery in oil prices. If you're searching for a reliable TFSA dividend pick, Suncor looks attractive.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

Date
2025/08/25
Date Created
2018/09/12
Author
aswalker