A Top Oil Stock to Buy in October

Description

It's one of the most difficult times for Canadian oil-producing companies to remain competitive. Despite a sustained recovery in oil prices, the outlook for the nation's top producers remains murky, as they struggle to move their oil to markets due to persistent pipeline shortages.

The capacity constraint is so acute that Canadian crude has gained less than 5% in the past two years compared with 57% jump for the U.S. benchmark. The current $39-a-barrel discount to the U.S. price is near the widest it's been in about five years.

There isn't a quick fix to this problem. Companies and the government of Prime Minister Justin Trudeau are struggling to get some pipeline projects off the ground quickly, but building pipelines is a time-consuming affair, and it may take several years for Canada to resolve this issue amid political resistance from environmental groups.

That said, Canada's energy space has some high-quality stocks that are still great investments for long-term investors. Calgary-based **Suncor Energy** (TSX:SU)(NYSE:SU), the biggest oil sands producer, is one of them. Let's take a deeper look.

A low-cost producer

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.

According to analysts, Suncor operates one of the lowest-declining and most-enduring upstream asset bases globally. That makes it possible for the company to produce steady and stable recurring cash flow, even under modest commodity price assumptions.

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.

Suncor's downstream operations, which include more than 1,700 Petro-Canada stations and oil refineries, provide a solid hedge to widening heavy oil differentials.

A solid dividend payer

Another strong reason to own Suncor stock is that the company is very aggressive in returning cash to investors. The producer has raised its payout for the 16 straight years. As oil prices strengthen, the company plans to increase its share-buyback plans. According to its most recent guidance, Suncor is targeting to complete its $5 billion of share-repurchase program by 2020.

Suncor stock is a safe bet in Canada's oil patch, despite the difficult operating environment in the country. With Brent crude oil prices trading above $80 a barrel and some investors calling for $100 oil in the next few months, Suncor is well positioned to benefit from this favourable macro picture. Trading close to $51 a share and with a $1.44-a-share annual dividend, Suncor is a good pick for buy-and-hold investors.

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hanwar