Counter Oil Sector Woes With This Investment

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) if often regarded as the premier investment option for those investors that are looking for an optimal investment in Canada's on-and-off energy sector.

With the latest oil crisis now taking its toll on the sector, does Suncor still warrant its position in your portfolio? Let's take a look at the current climate and try to answer that question.

Here's what we do know

Pipelines that carry crude out from the oil-rich regions of Alberta, connecting to storage tanks and refineries across the continent. Extracting heavy oil is an expensive process, and Alberta is effectively landlocked, limiting transportation options, which is part of the reason that Western Canadian Select (WCS) trades at a discount to its counterpart from the U.S., West Texas Intermediate (WTI).

Part of the current problem is that those pipelines are backlogged, which is costing Alberta millions in lost revenue each and every day. To make matters worse, many of the refineries in the Midwest of the U.S. recently flipped into a maintenance cycle, further lowering demand for WCS.

The province recently noted the amount it's losing as being upwards of $100 million per day, while others have provided more conservative figures that are as low as $40 million.

Irrespective of the actual loss, it is real, impacting the sector greatly and the need for new and expanded pipelines from Alberta to refineries is a pressing matter. The only problem is that outside of Alberta, those pleas appear to be falling on deaf ears.

That's not to say there aren't contingencies in place- agreements with railroads that can haul crude to U.S. Gulf region are in place, but there's always room for more.

Here's why Suncor still prevails despite the current climate

Most investors will recognize that Suncor is a huge company, and with that size comes a certain flair for applying economies of scale. To put it another way, Suncor's sheer size of operations allows it to produce crude in bulk at a far lower price than many of its peers.

This allows Suncor to continue to turn a profit when prices drop substantially.

Speaking of profit, Suncor's most recent quarterly update also showcases the strong position the company is in, including a 41% increase in net earnings and a 27% increase of funds flow from operations to $1.8 billion, and $3.1 billion, respectively.

In addition to a strong market position and improving results, Suncor also offers investors a handsome quarterly dividend that provides a respectable 3.33% yield. Additionally, Suncor has a share buyback program is in place and hasn't been coy on hiking its dividend on an annual basis in the past, meaning that investors should expect a hike on the order of the 12.5% increase we saw this year occur next year as well.

Should you buy?

Over the course of the volatile past few months, Suncor has shed 20% of its stock price, which averages out to a 7% price drop over the course of the current year, and the stock is near flat over the course of the past two years. While this doesn't bode well for growth seeking-investors, it does provide some insight into the opportunity posed for long-term investors that want to buy in at the current discounted rate.

If for no other reason, banking the attractive and growing dividend while waiting for the stock to resume its growth seems viable, provided the focus is on the longer-term.

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dafxentiou