Suncor Energy (TSX:SU) Is a Top Oil Stock Now Selling Absurdly Cheap

Description

The indiscriminate sell-off in oil stocks continues with no near-term solution for both domestic pipeline constraints that Canadian producers are facing and the global supply glut.

Oil prices have plunged 30% since early October. The global oil benchmark Brent, which hit $86 a barrel in early October, is trading close to $60 a barrel on concerns that a possible slowdown in global growth, triggered by the U.S.-China trade war, will reduce demand for oil.

That means a short honeymoon that oil producers enjoyed in 2018 is over and the oil stocks are back in a sluggish mode. That weakness can continue in 2019, and the market's collective wisdom is that investors should avoid oil stocks.

It's very hard for analysts to predict when this down cycle for the oil market will be over, but in my view, this is also a good time to do some bargain hunting and buy some great income-producing stocks that are best positioned to weather the oil downturn and recover quickly.

Among those players, **Suncor Energy** (TSX:SU)(NYSE:SU), Canada's largest integrated producer, is one of my favourites. Let's take a deeper look.

Cost-efficient and diversified operations

Calgary-based Suncor has a diversified asset base that includes large oil fields, gas stations, and wind farms. The company holds the largest reserves in the oil sands, and it owns and operates four refineries, Canada's largest ethanol plant, wind farms, and 1,500 retail outlets.

This model insulates the company's cash flows from going into negatives, even when oil markets go through a massive correction. The latest evidence of this strength came into the limelight when the provincial government of Alberta announced a phased output cut for oil producers to deal with the pipeline capacity in this oil-exporting nation.

Despite the curtailments that begin Jan. 1, Suncor's production will still grow by 10% in 2019 on a stand-pat capital budget of between $4.9 billion and $5.6 billion.

In the third quarter, the company beat analysts' expectations, as its refining operations helped it weather lower prices for oil sands crude. Suncor's funds from operations during the period surged to a record $3.14 billion.

Going forward, Suncor expects to benefit from increased production from its new Fort Hills mine , a $17 billion project with a full capacity of 194,000 barrels a day. The project reached 90% of nameplate capacity after the end of the third quarter, meeting a target of hitting that level this year.

Bottom line

Trading at $39.62, close to the lowest level in a year and with an annual dividend yield of 3.44%, I find Suncor stock quite attractive, especially if your focus is to earn income by buying and holding this top oil stock in your portfolio. This year, Suncor hiked its quarterly dividend by 12.5% to $0.36 per share, marking the 16th year of consecutive annualized dividend hikes.

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