



Danger! Some Nasty Secrets Are Hiding in This Popular Dividend Stock

Description

Energy stocks are looking a little shaky at the moment, after a week of big losses in the struggling [oil and gas sector](#). Indeed, with some betas in big-name tickers being higher than a risk-averse buyer may be prepared to accept, the vulnerability of this sector to lower oil may see the rot spread as the year progresses.

A once-stable stock to steer clear of

TSX index giant, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is looking less solid than usual. Looking through the data, it's possible to see a trend for underperformance, with three-year returns of 23.1% as an outlying win. [Suncor Energy](#) saw a five-day loss of 4.16% at one point last week, and while today's five-day loss of 0.25% signifies a stabilizing share price, it's still not much a confidence booster.

Let's look for a moment at this supposedly defensive stock's volatility. Suncor Energy's three-year beta of 1.5 relative to the market often flies under the radar, and though its beta of 1.36 relative to the Canadian oil and gas industry shows that this stock is less volatile than the majority of competing tickers in the same space, a plummeting per-barrel oil price can send its share price oscillating wildly.

There are more nasty surprises hiding in Suncor Energy's data: its five-year average past earnings growth of 9.1% is mediocre, while its past-year earnings were negative by 26.1%. Indeed, a paltry 7% past-year ROE shows that Suncor Energy has been making poor use of its shareholders' funds.

While debt is adequately covered by Suncor Energy's operating cash flow, this stock's balance sheet could become an issue if a trend of increasing liabilities continues: its level of debt to net worth has crept up over the past five years from 27.8% to a current 39.4%. An expected three-year return on equity of just 10.3%, meanwhile, suggests an unremarkable future performance.

What should investors swap Suncor Energy shares for?

A decent oil and gas competitor to go for might be something like **Vermilion Energy** ([TSX:VET](#))([NYSE:VET](#))

). Down 0.73% in the last five days, it's in the same boat as most of the competition, though its one-year past earnings growth of 336.3% is vastly superior to that of Suncor Energy.

In terms of a balance sheet, Vermilion Energy's level of debt compared to net worth has risen, much like Suncor Energy's, from 57.6% to 68% over the past five years, though that debt is well covered by Vermilion Energy's operating cash flow.

Or then again, you may want to ease up on the Canadian oil and gas stocks and go for a gold miner, such as the incomparable **Goldcorp** (TSX:G)(NYSE:GG). Up 2.29% in the last five days, this stock is going to soar this year and make its outperforming 14.6% 90-day returns look like chump change. Trading at book with a 29% discount, it's also great value for money right now.

The bottom line

Vermilion Energy is looking like the superior stock at the moment, with its P/E of 17.1 times earnings, P/B of 1.8 times book signifying good value for money, while a larger dividend yield of 8.34% is on offer. Investors looking for upside in a defensive stock should consider Goldcorp instead, with its small 0.7% treat of a dividend and high 121.9% expected annual growth in earnings.

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