Canada's Best Oil Stock Looks Cheap: Time to Buy?

Description

In the volatile energy markets, it's very tough to predict the best time to buy oil stocks. It's possible that when you decide to put your dollars to work, oil prices could be on the verge of collapsing.

Given the inherent uncertainty associated with oil markets, I usually don't recommend that individual investors buy oil stocks. That said, the oil trade becomes viable if you're a long-term investor and you're able to find some good quality stocks that produce regular income that will help you to ride through the volatility in energy markets.

Here is one of the best oil stocks from Canada that you can consider to buy and stash in your income portfolio.

Suncor Energy

Canada's integrated oil giant, **Suncor Energy Inc**. (TSX:SU)(NYSE:SU) is among the few stocks that you can buy and hold. The company has consistently shown that its diversified assets can withstand the oil markets' gyrations and produce a steady stream of cash flows.

One of the biggest strengths that makes Suncor different from other oil and gas producers is the company's integrated business. Suncor's oil sands make up 7.37 of the 7.79 billion barrels of the company's proved plus probable reserves.

In addition, Suncor operates four refineries, with a combined capacity of 460,000 barrels per day, Canada's largest ethanol plant, wind farms, and a network of more than 1,500 retail and wholesale outlets.

These integrated operations are helping the company remain cash rich even at a time when the provincial government of Alberta has restricted companies on how much they can produce. Suncor CEO Steve Williams, in the last earnings call, said that the curtailment order has had a minimal impact on Suncor because of its refining business and access to existing pipelines.

There's a good chance that the company will show a more robust cash-flow situation when it releases its first-quarter earnings report on May 1. According to a recent note by the BMO Capital Markets, the recent rally in oil prices will bring in more cash for Canada's top integrated oil players.

"The surge in crude oil prices is creating a cash flow windfall for many companies. At a WTI price of $55/bbl and WTI-WCS differential of $20/bbl, we expect the Canadian large cap companies to collectively generate C$11 billion of surplus cash flow in 2019," BMO said.

That amount of cash flows will surge to C$17 billion at current WTI crude prices around $65 per barrel and a $10 per barrel WTI-WCS differential.

Bottom line

These predictions bode quite well for Suncor stock, which has a solid track record of returning cash to investors. The oil giant has been sending dividend cheques to its shareholders for about a quarter of a century.

Despite posting a loss in the fourth quarter of the last year, Suncor hiked its payout by 17% to $0.42 a share quarterly. It also increased its share-buyback program from $2.15 billion to $3 billion.

Trading at $44.09 at writing with an annual dividend yield of 3.88%, Suncor stock looks cheap with the oil market outlook brightening.

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