Why This Oil Stock Is a Top Candidate for Your TFSA

Description

It doesn’t make sense to include highly cyclical commodity stocks in your Tax-Free Savings Account (TFSA) when your investment objective is to grow your savings and protect your capital. But one top oil stock from Canada that defies this logic is **Suncor Energy** (TSX:SU)(NYSE:TU).

There are many reasons that make Suncor attractive for any TFSA, but the most compelling one is that this company has proven many times that it can weather an oil market downturn much better than other cyclical players. That strength coupled with Suncor’s leadership position in Canada and its growing dividend make it a perfect candidate for the buy-and-hold TFSA investors.

But when you plan to buy any stock, the factor that will decide the rate of your future return is whether this is the right time to enter the trade. After rallying to $55.35 a share in the past summer, Suncor stock plunged below $37 in December, followed by a slow and gradual recovery to $42 a share.

Improving cash flows

There are many reasons, both short-term and long-term, that support a bullish case for Suncor stock. First, oil producers in Canada are raking in the highest revenues in five years thanks to strong global oil prices and Alberta’s production cuts.

Alberta effectively became Canada’s OPEC this year after the provincial government restricted oil production to relieve pressure on the nation’s pipeline system and ease the congestion. The move boosted prices dramatically, making larger producers, such Suncor, cash rich.

Suncor generated $5.2 billion in free cash flows in 2018 after the capital spending and $2.8 billion if we subtract dividend payments. That’s massive cash in an industry that experienced great pain and is still in the middle of a crisis created by pipeline shortages in Canada.

In the final quarter of 2018, Suncor hiked its payout by 17% to $0.42 a share quarterly and also increased its share-buyback program from $2.15 billion to $3 billion.

Over the long run, Suncor is a much better bet in the Canadian oil patch than many other producers due to the company’s integrated business model: it digs for oil, refines it, and sells it through its 1,500 gas stations.

Rival oil sands companies are more exposed to volatile commodity prices and pipeline constraints, but Suncor presence in almost every stage of energy supply-chain makes it somewhat insulated.

Bottom line

Trading at $42.98 at writing with an annual dividend yield of 3.8%, Suncor has many catalysts that could move its stock higher from these levels. By buying Suncor, you're making a long-term bet on Canada's energy sector. You will also earn regular dividends that the company has been growing consistently.

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