Buy and Hold This Energy Giant for the Next 50 Years

Description

Energy stocks on the TSX were taking a beating in early afternoon trading on May 23. Oil prices were ravaged to start the day, as investors have seemingly resigned themselves to a prolonged U.S.-China trade war. The potential for disruption in the global market is high, as the world's two largest economies will try to outlast the other. This will have far-reaching economic, social, and political consequences.

This energy rout may scare a lot of investors away from the sector as we approach the end of May, but this should not be the case. The bout of volatility should present a buying opportunity for savvy investors, especially in some of the top energy companies. Today, we are going to look at one energy giant that is worth holding for decades to come.

Suncor Energy (TSX:SU)(NYSE:SU) is one of the most heavily weighted equities on the TSX, boasting a market cap of over $60 billion. Suncor was my top stock pick for the month of May, but rising trade tensions have brought volatility back to the market. Even still, this is a stock worth monitoring as this broader turbulence will produce discounts.

Back in late 2017, Suncor CEO Steve Williams predicted that oil sands had tremendous longevity. He argued that the push for renewables would not have a negative impact on the sector. "We've already got oil sands to a position where (emissions are) broadly equivalent to other crudes on this continent, and we're in a position to take it to an even better position," he said in an interview with the *Calgary Herald*. CEO Steve Williams retired on May 2, 2019, and will be replaced by Mark Little.

In late 2018, Wood Mackenzie released its updated alternative energy outlook. It projects that fossil fuel demand will not go away even if the renewable energy transition accelerates. "Fossil fuels will not disappear any time soon," said senior analyst David Brown. "Our scenario envisages fossil fuels having a 77% share of global energy demand — versus 79% in our base case — as major markets such as China and the E.U. reach similar levels of fossil fuel shares."

Suncor is well worth holding even in the face of rising renewables. The company released its first-quarter 2019 results on May 1. Funds from operations hit $2.58 billion, or $1.64 per share, compared to $2.16 billion, or $1.32 per share, in the prior year. Total oil sands production increased to 657,200 barrels per day compared to 571,700 barrels per day in Q1 2018. Oil sands operations achieved 98% upgrader utilization even with mandatory production curtailments providing a severe headwind.

The energy rout has not spared Suncor this week. Shares were down 4.80% in early afternoon trading on May 23. The stock has now dropped 5.4% over the past month. Suncor stock still boasts a forward P/E of 14, which makes it an above-average play relative to direct industry competitors. Shares had an RSI of 34 as of this writing, which means it is trending towards technically oversold territory.

To top it off, Suncor last paid out a quarterly dividend of $0.42 per share. This now represents a 4.1% yield. Suncor has achieved dividend growth for 16 consecutive years.

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Author
aocallaghan