



3 Reasons to Buy Suncor Energy (TSX:SU) Stock

Description

With a \$60 billion valuation, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) has become one of the largest energy companies in Canada. The journey has been long.

In 1967, Suncor was the first to commercially develop Canada's oil sands, which, while pricey, remain some of the largest oil reserves in the world. The company has since become an oil sands behemoth, with controlling interests in mega-projects like Fort Hills and Syncrude.

Suncor's best days may still be ahead of it. Recently, the company raised the dividend, continued a share-buyback program, and even attracted the interest of the most respected investor on the planet.

Here are three reasons you should buy Suncor stock today.

Check out this dividend

After a small dip, Suncor's dividend is now up to 4.2%. Not only is that above the industry average, but it's also one of the most sustainable.

Suncor currently has an investment-grade rating thanks to \$1.9 billion in cash and \$3.4 billion in available credit lines. The company also breaks even at oil prices down to US\$45 per barrel. That breakeven level includes the dividend payment, so there's plenty of cushion.

Management has made growing the payout a priority in the past. As long as oil prices cooperate, expect this dividend to grow in future years.

In 2014, the dividend was \$1.02 per share. Despite volatile oil prices, Suncor has boosted the payout each year since, hitting \$1.68 per share in 2019. Growth would have been even higher if the company hadn't opted to buy back shares through a sizable, multi-year repurchase program.

Buybacks accelerate value

Repurchasing shares is one of the greatest methods a company can use to create shareholder wealth.

Unfortunately, countless companies buy back stock at expensive prices, which ultimately destroys value. Suncor is no such example.

If management's expectations are correct, it's hard to argue that Suncor stock isn't undervalued. This year, production growth and cost cuts should boost cash flows by 5%. With a solid balance sheet and low breakeven price point, Suncor looks like a financial fortress.

Over the next five years and beyond, Suncor anticipates growing fund flows by 4-5% per year. With 31 years left of reserves and a near-term decline rate of just 1% annually, it won't be hard for the business to generate a growing cash pile.

Despite dramatically improved conditions, shares still trade at less than 10 times forward earnings. It's this disparity between conditions and stock price that pushed management to repurchase \$5 billion in stock since 2017, nearly 10% of the entire company. This year, the company anticipates continuing the repurchases.

It's not just the company that's betting on itself. A famous investor also jumped into the stock this year.

Oracle of Omaha

In February, **Berkshire Hathaway's** Warren Buffett [revealed](#) a 10.8 million share stake in Suncor, roughly 0.7% the float. He was no doubt attracted to the company's integrated business model.

Suncor doesn't just produce oil. It also has a refining business that can process its output into marketable products. This is a huge advantage given the current climate.

Today, energy support infrastructure in Canada is struggling to keep up with surging volumes. That's caused many producers to accept discounts in order to get their oil to market.

Because it owns its own refineries, Suncor can fetch a global price for its output without ceding value to a middleman.

This business model not only helps Suncor take advantage of rising oil prices, but it also protects the downside given refinery margins often rise if oil prices fall.

"If the Canadian energy sector rebounds, Suncor should follow suit," I wrote earlier this year. "If pressures remain, Suncor should have limited downside risk compared to its less-integrated peers."

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/25

Date Created

2019/06/08

Author

rvanzo

default watermark

default watermark