RRSP Investors: An Oversold Dividend Star With 30% Upside Potential

Description

The TSX Index has staged a nice recovery in 2019, but a number of companies have given back some of the gains and are trading at levels that should be attractive for buy-and-hold investors.

Let's take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) to see why it might be an interesting pick right now for a self-directed RRSP portfolio.

Diversified business lines

Suncor is somewhat unique in the Canadian energy patch. The company is primarily known as an oil sands producer, and the challenges the sector faces with low Western Canadian Select (WCS) prices and restricted market access tend to deter investors. Suncor has an advantage over some of its oil sands peers in that the company effectively gets West Texas Intermediate (WTI) pricing, which is higher than WCS, for the majority of its production due to favourable access to the existing pipelines that carry the company's production to the United States.

When oil prices fall, Suncor has a built-in hedge through its downstream operations. The company owns four large refineries that make products such as gasoline, diesel fuel, and asphalt. When the input costs fall the margins generated on the sale of the finished products can increase considerably.

Suncor also has retail operations. The roughly 1,500 Petro-Canada service stations can also benefit when oil prices fall, as gasoline generally becomes cheaper for people who might decide to take more road trips.

Overall, the integrated nature of the business is a large reason Suncor's stock has held up better than the broader energy sector.

Strong balance sheet

Debt is a big issue for many of the pure-play oil and gas producers and is the main reason several of the previous high-flying stocks have lost as much as 90% of their value in the past five years. The bloodbath gives Suncor a great opportunity to deploy cash and take advantage of its access to capital. We saw this when it bought Canadian Oil Sands as well as a number of other tuck-in purchases that increased Suncor's stake in key projects.

The strong balance sheet also allows Suncor to push ahead with large development projects during difficult times. Fort Hills and Hebron benefited from lower contractor costs during the oil rout, and the two projects are now ramping up production.

Dividends

Suncor raised its dividend by almost 17% for 2019. This suggests management is confident in the revenue and cash flow outlook, despite volatility in the oil market. The current payout provides a yield of 4%.

Should you buy?

Suncor trades at $41 per share compared to $55 last summer. Oil prices have started to move higher after the latest dip and a continued rally through the end of the year and into 2020 could be on the way. In the meantime, investors can pick up a solid dividend yield with ongoing double-digit annual increases potentially on the way.

If you have some cash sitting on the sidelines in your RRSP, Suncor might be an interesting buy right now.

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