TFSA Investors: It's Finally Time to Buy This Rock-Solid 4.4% Yielder

Description

I'm not usually a fan of buying Canadian energy stocks.

I try to avoid any sector where a company has no control over their pricing. Nobody really cares what mine their gold comes from or what oil field produced the gasoline used to power their car. Most folks don't care about where they buy their cereal either; they just want the product they know at the cheapest cost.

Because of this, I try to avoid commodity stocks when I invest. This includes oil producers, all mining stocks, and even most retailers.

But I've made an exception with one energy stock. This company is so much better than its peers that I had to stick it into my TFSA as a long-term hold. Here's why.

A colossus

Suncor Energy (TSX:SU)(NYSE:SU) is the granddaddy of all energy companies in Canada. It's Canada's largest oil producer with total production surpassing 800,000 barrels per day in its most recent quarter. It also owns several refineries, significant other downstream assets, and nearly 1,800 Petro-Canada gas stations.

There are two big advantages to operating in the oil sands, where most of Suncor's production comes from. Firstly, the majority of the costs are borne up front. This translates into low operating expenses, which ensures a profit is made even during periods of weak oil prices. And secondly, oil sands operations have huge reserve lives. Suncor's heavy oil assets have a Reserve Life Index of 31 years.

The company has several big growth projects in the planning stages as well. Between five different oil sands future developments, management sees upwards of 350,000 barrels per day worth of production coming online over the next five to 10 years. These projects should only need US$50 per barrel to break even.

Suncor was gobbling up assets during the industry's darkest days, back in 2016-17. These purchases are beginning to show up on the bottom line today. Funds from operations should hit $11 billion in 2019, leaving plenty of capital to fund growth initiatives, buy back shares, and pay the generous dividend.

Finally, I'd be amiss if I didn't mention the big boost Suncor got from the Alberta government. It recently recorded a $1.1 billion one-time profit from the province lowering its corporate tax rate.

Downstream assets

Suncor's vertically integrated business model is a big advantage when future oil prices are so uncertain.

Have you noticed how gasoline prices haven't gone down nearly as much as oil prices? That's the beauty of the refining business. Suncor's four refineries are delivering great results, with funds from operations from that part of the business hitting $3.8 billion in 2018. That's an improvement of 65% compared to 2014's results.

In fact, Suncor's earnings from its refining and marketing division is easily enough to support its dividend. That's exactly what this tepid energy investor likes to see.

Giving back to shareholders

In a world where most energy companies have been forced to cut their payouts, Suncor has maintained one of Canada's best dividend-growth streaks. The company has increased its payout for 17 consecutive years. The current payout is a generous 4.4%, too.

Suncor is big on giving back to shareholders via share buybacks, too. In 2018, the company spent $1.44 per share on dividends and $1.88 per share in share buybacks. That gave investors a total shareholder yield of over 7%. Buybacks might not be as generous this year, but investors should still be able to count on a total yield in the 6% range.

Oh, one last thing

I almost forgot to mention, the world's greatest investor is also a Suncor bull.

Warren Buffett recently purchased 10.8 million shares, a stake worth approximately $410 million. That's enough to buy just under 1% of the company.

If you get in today, you'll be buying at around the same price Buffett paid. That's gotta make any investor feel good. I know I sure wouldn't bet against the Oracle of Omaha.

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