A Cheap Stock With Big Upside Potential for Dividend Investors

Description

Top dividend stocks normally command a premium valuation due to the reliability of their payouts and the value of the anticipated growth in the distributions.

Once in a while, however, investors get a break and can buy attractive dividend payers at a reasonable price.

Let’s take a look at one top Canadian stock that appears oversold right now and that might be an interesting pick for a dividend portfolio.

Suncor

The moment anyone hears the word *energy* these days, they pretty much run for the hills. Canada’s oil patch has taken a beating over the past five years, and many of the former dividend darlings now trade at a 90% discount to their previous prices.

Oil remains volatile and investors should avoid stocks that are carrying too much debt, especially the smaller pure-play producers.

That said, there are a few names in the sector that are performing well and have actually benefitted from the downturn.

Suncor Energy (TSX:SU)(NYSE:SU) is one of those stocks.

The company used its war chest of cash and access to funds to add strategic assets during the worst part of the plunge. The takeover of Canadian Oil Sands, for example, gave Suncor control of Syncrude.

Suncor also had the good fortune to push ahead with major development projects through the crash. A weak industry meant that lower construction costs and oil prices started to recover just as Fort Hills and Hebron went into commercial service.

Production continues to ramp up at the two sites and that helped Suncor generate higher output in Q2 of this year, despite the curtailments put in place by the Alberta government.

Pipeline bottlenecks remain a headache for oil sands producers but Suncor manages to get WTI or Brent pricing for most of its production due to favourable access to existing lines and its integrated business structure.

At some point, Trans Mountain and Keystone XL should get built, which should give Suncor a chance to increase production on its massive resource base.

The board raised the dividend by 16.7% this year, and ongoing hikes should be on the way. Suncor has increased the payout for 17 straight years and the current distribution provides a yield of 4.5%.

Suncor reported record funds from operations of $3 billion for Q2 2019. Operating earnings came in at $1.253 billion, representing a 10% increase over the same period last year.

The company used $552 million of the extra cash flow to buy back stock and reduced its short-term debt balance by $1.28 billion.

Should you buy?

The stock trades at $37.50 per share compared to $54 at the end of last summer. Oil prices are lower than they were a year ago, but Suncor is still generating solid results and the integrated business model continues to serve as a valuable hedge against lower oil margins.

At just 10.4 times trailing earnings the stock appears oversold. If oil prices can manage a rally through the end of 2019 and into 2020 this stock could quickly retest the 2018 highs.

In the meantime, investors collect an attractive yield with a double-digit percentage increase in the distribution likely on the way next year.

If you have cash to put to work, Suncor looks attractive right now for a dividend portfolio.

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