



A Top Dividend-Growth Stock to Buy for Your TFSA

Description

It's not an easy time to consider betting on [oil stocks](#). The global economic headwinds, geopolitical uncertainties in the Middle East, and Canada's capacity constraints to ship energy products all have contributed to the bearish sentiments towards energy companies.

But when stock values are down and valuations are attractive, it's also the best time to do your shopping and add some solid dividend-growth stocks to your portfolio. If you're planning to add a strong energy stock to your Tax-Free Savings Account (TFSA) for the same reasons, then I strongly recommend **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), Canada's largest oil sands producer.

Its stock has fallen more than 28% during the past 12 months, mainly driven by Canada's pipeline problems, which are limiting the producers' ability to ship their products to overseas markets. But there are clear signs that Suncor is dealing with this slump quite efficiently.

Suncor's earnings strength

In the second quarter, the oil sands producer posted record output, despite Alberta's mandatory crude production curtailment program, by focusing on higher-value output from its Syncrude operation and buying other companies' production allotments.

Total upstream production climbed to a second-quarter record of 803,900 barrels of oil equivalent per day — a 21% increase from a year earlier.

The increased production helped Suncor generate about \$3 billion in funds from operations in the quarter. The company paid out \$658 million in dividends and bought back \$552 million in shares in the quarter.

One of the biggest reasons that makes [Suncor](#) different from other Canadian producers is the company's operational readiness to thrive in both good and bad market conditions.

What helps Suncor continue to generate strong cash flows is its business diversification. The company not only holds the largest reserves in the oil sands, but it also owns and operates four refineries, Canada's largest ethanol plant, wind farms, and 1,500 retail outlets.

As oil prices recover and refining margins strengthen, Suncor is in a much better position to produce more cash from its diversified operations than a normal oil producer.

Reliable income potential

Due to the company's strong cash flow-generation capability, its stock has been a reliable income generator for long-term investors, even in the worst environment for oil companies. Suncor has a solid history of rewarding investors with growing dividends.

The oil giant has been sending dividend cheques to its shareholders for about quarter of a century. After a 17% hike in its payout in 2019, the company now pays a quarterly dividend of \$0.42 a share. For TFSA investors, this is a great incentive to stick with the stock, which usually comes out stronger from an oil market downturn

After the pullback of this year, Suncor stock is trading at an attractive level. With an annual dividend yield of 4.4% and with a great upside potential, I find Suncor a good candidate for your TFSA if you plan to hold it over the long term.

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Date

2025/07/21

Date Created

2019/08/31

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