Should Suncor Energy (TSX:SU) or Nutrien (TSX:NTR) Stock Be in Your Dividend Portfolio?

Description

International trade disputes are driving up fears that we could be on the cusp of a global recession, pushing down the stock prices of a wide spectrum of top-quality companies.

Volatility is expected to continue in the near term, but investors with a buy-and-hold strategy might want to start nibbling on dividend growth stocks that are now at cheap levels.

Let's take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) and **Nutrien** (TSX:NTR)(NYSE:NTR) to see if one might be an interesting pick right now for a dividend portfolio.

Suncor

Suncor isn't normally a name that comes up when people talk about dividend stocks, but the Canadian energy company has increased its payout for 17 years straight.

The integrated business model enables Suncor to generate solid cash flow even when oil prices are falling. This is due to the downstream refining and retail businesses that can benefit from lower input costs.

Suncor has a strong balance sheet with the power to buy strategic assets when the energy sector is under pressure. The added production then drives revenue and cash flow higher when the market recovers.

The stock is now trading at $38 per share compared to the $55 high it hit in 2018. Oil prices are under pressure amid ongoing fears that a global economic downturn might arrive and hit demand. However, any news of a trade deal between the U.S. and China could spark a new rally.

In the meantime, investors can pick up the stock for just 10.5 times earnings and secure a nice 4.4% dividend yield. Suncor raised the distribution by more than 16% for 2019, and another generous increase should be on the way in 2020.

Nutrien

Nutrien was formed at the beginning of 2018 through the merger of Potash Corp. and Agrium. The two Saskatchewan-based producers of crop nutrients already co-marketed their potash production together, so it made sense for the companies to join forces.

Nutrien is now the planet's largest potash producer, giving it a competitive advantage when negotiating wholesale deals with countries such as China and India. The fertilizer sector witnessed a rough patch for several years, but that appears to have bottomed.

China and India each signed potash contracts in 2018 that were at higher prices than the previous year. The 2019 agreements are not complete, but pundits anticipate another price increase.

Nutrien also has a growing retail division that was part of Agrium. The business is expanding through acquisitions amid a wave of consolidation in the industry. Nutrien is also boosting its digital offerings to help farmers manage all aspects of their businesses.

The company earned US$2.69 per share last year and is targeting US$2.70-3.00 for 2019. The board raised the dividend twice in the past 12 months and investors should see steady hikes continue. Investors who buy today can lock in a 3.6% yield.

As crop nutrient prices continue to recover, margins should expand and Nutrien has the potential to be a free cash flow machine.

The current stock price is $66 per share compared to $75 last September. At less than 10 times trailing earnings, Nutrien appears oversold today.

Is one a better bet?

Nutrien and Suncor are leaders in their respective industries and should be attractive buy-and-hold picks for a dividend portfolio. At this point, both stocks appear oversold, so I would probably split a new investment between the two companies.

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