TFSA Investors: This Buffett-Approved Energy Stock Has a 3.97% Yield

Description

Canadian energy stocks haven't exactly been in fashion this year. With the Canadian Crude Index having fallen 19.3% since April 23, oil stocks have taken a dive as well. In the same period, the S&P/TSX Capped Energy Index has fallen about 16% — slightly less than the commodity itself but still a significant fall.

There's no denying that most energy companies suffer when oil falls. Although pipelines aren't directly impacted by the price of oil, companies that refine and process the commodity earn their money off of sales. Therefore, the lower oil goes, the lower their revenues and profit margins.

But despite oil's current weakness, it's still up from where it was this time last year (about $39). This means that oil companies still have some room to improve their profitability year over year. And there's one TSX-listed oil stock doing just that — and it's owned by none other than Warren Buffett.

Suncor Energy

Suncor Energy (TSX:SU)(NYSE:SU) is a diversified energy company with production, refining and retail operations. The company has a network of more than 1500 Petro-Canada retail outlets throughout the country, which supplies gas to customers directly at the pumps. As such, it's involved in the full production and retail process for the petroleum products it sells.

In its most recent quarter, Suncor delivered impressive results, including a 10% increase in funds from operations (FFO), a 179% increase in net income, and a 10% increase in operating income. The huge jump in net income was due to a one-time income tax recovery, so such growth will not continue into the future.

Nevertheless, the fact that Suncor grew its FFO and operating income by 10% shows that it has been able to grow, even when oil hasn't been doing so well.

Income potential

Owing to its poor stock performance over the past 52 weeks, Suncor's dividend yield has risen considerably and now sits at 3.97%. Although you could have locked in a yield as high as 4.5% by buying earlier this year, the current yield is still way above average.

On a $100,000 position in SU, you'd earn $3,970 in dividends each year. Not only that, but this dividend has the potential to grow.

Dividend growth

Over the past five years, Suncor Energy has raised its dividend by an average of 12.4% a year. That's an extremely high dividend-growth rate. If oil is strong, we could expect the company to raise its dividend by even more than it has been.

However, owing to its diversified revenue streams, Suncor Energy can grow even when oil is weak — as we've seen over the past four years. So, investors can expect the dividend increases to continue for the foreseeable future.

Foolish takeaway

The past five years have been a rough time for Canadian energy stocks. After the oil crash of 2014 and the more recent delisting of eight TSX energy stocks, it's hard to be optimistic about the sector.

However, not all energy stocks are created equal. Diversified energy companies can easily grow even when oil is weak, and, as we've seen in this article, that's exactly what has happened with Suncor.

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Date
2025/08/26
Date Created
2019/09/20
Author
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