A Top Stock to Buy if the Oil Rally Continues

Description

Are we on the verge of a powerful rally in oil markets again? I doubt there is a certain answer to this question, given the oil market's highly unpredictable nature. But the events of this week have highlighted the vulnerability of the oil supply system and refuted those claims that good days for oil producers are behind us.

The sharp escalation in geopolitical tensions in the Middle East following an attack on Saudi Arabian oil facilities, which knocked off about 5% of global oil supply and sent oil prices surging the most on record on Monday, show how quickly the situation can change.

This volatile environment also highlights the importance of keeping some top oil stocks in your portfolio. In this case, I strongly recommend buying a top Canadian oil sands producer, **Suncor Energy** (TSX:SU)(NYSE:SU).

There are many reasons that make an Suncor attractive buy for any oil bull, but the most compelling one is that this company has proven many times that it can perform better than its peers in both up and down trends in oil markets.

Suncor's leadership position

That strength coupled with Suncor's leadership position in Canada and its growing dividend make it a perfect candidate for buy-and-hold investors.

But when you plan to buy any stock, the factor that will decide the rate of your future return is whether this is the right time to enter the trade. Suncor, with other Canadian producers, have remained under pressure the most part of the last year. The main reason of this sluggish performance has been that Canada is facing acute pipeline capacity shortage.

That shortage caused the top oil-producing province, Alberta, to force suppliers to cut their productions to deal with the glut and improve Canadian oil prices in global markets. Suncor said in July that some of Canada's biggest producers were in talks with the government about being allowed to produce more than their current quotas, as long as that incremental production was shipped to market by rail.

Despite this curtailment, Suncor Energy posted record second-quarter output by focusing on higher-value output from its Syncrude operation and buying other companies' production allotments.

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.

In the final quarter of 2018, Suncor hiked its payout by 17% to $0.42 a share quarterly and also increased its share-buyback program from $2.15 billion to $3 billion.

Over the long run, Suncor is a much better bet in the Canadian oil patch than many other producers due to the company's integrated business model: it digs for oil, refines it, and sells it through its 1,500 gas stations.

Rival oil sands companies are more exposed to volatile commodity prices and pipeline constraints, but Suncor's presence in almost every stage of energy supply chain makes it somewhat insulated

Bottom line

Trading at $42.27 at writing with an annual dividend yield of 4.17%, Suncor has many catalysts that could move its stock higher from these levels. By buying Suncor, you will be in a good position to benefit if oil prices continue to surge from here. You will also earn regular dividends that the company has been growing consistently.

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