RRSP Investors: Should You Buy Suncor Energy (TSX:SU) Stock Today?

Description

Canadian savers are using self-directed RRSP accounts to hold top-quality stocks as part of their retirement-planning process.

The strategy makes sense, as contributions can be used to reduced taxable income today and defer the tax payment to when you pull the funds down the road. At that point, the dollar you give the tax authorities will have less buying power, and the goal is to work things out so that you are in a lower marginal tax bracket than when you made the original contributions.

Which stocks should you buy?

Dividend stocks tend to generate attractive returns over the long haul, and RRSP investments are normally held for years or decades. Industry leaders with wide moats and strong balance sheets should be at the top of the list, and ideally we want to buy the stocks when they are somewhat out of favour.

Let's take a look at a top Canadian stock that appears cheap today and might be an interesting pick for your RRSP portfolio.

Suncor

Suncor Energy (TSX:SU)(NYSE:SU) trades at $40 per share compared to a high of $55 in July 2018. The drop has occurred due to a weakening of oil prices and ongoing concerns about pipeline access to higher-priced energy markets.

The Canadian oil patch continues to suffer from bottlenecks. Getting new major pipelines approved and built is a challenge, and ongoing difficulties should be expected. That said, it is likely that new access to international markets will arrive in the next few years. TransMountain and Keystone XL still face challenges, and the outcome of the federal election in Canada could have an impact on their timelines, but one will probably get built.

Suncor already has favourable access to pipeline capacity through existing agreements. In addition, its integrated business structure, which includes refineries and retail locations, means it is able to realize global prices for the majority of its output.

The company has a strong balance sheet and buys new assets when the market hits a rough patch. This results in higher production and stronger cash flow when oil prices improve.

Oil market

A resolution to the U.S.-China trade war could send oil prices higher as an agreement would alleviate some global growth fears. In addition, Saudi Arabia plans to list part of its national oil company, Aramco, to raise funds. The OPEC leader will want oil prices to be higher when that occurs to bet the best price for the stock.

Volatility should be expected, but there is a chance oil could see a rally in the next 12 months.

Dividend

In the meantime, investors can pick up a nice dividend from Suncor. The board has raised the payout for 17 straight years, and ongoing distribution hikes should be on the way. At the time of writing, the stock provides a yield of 4.2%.

Should you buy?

Suncor's downstream business provides a nice revenue hedge during periods when oil prices are under pressure. This is why the stock price tends to hold up better than the pure-play producers during a downturn.

The management team does a good job of balancing the capital program to meet market conditions, and free cash flow is used to boost dividends, as well as pay down debt and repurchase shares.

If you have some cash sitting on the sidelines, Suncor appears cheap today and should be a solid buy-and-hold pick for a dividend-focused RRSP portfolio.

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