Dividend Investors: This Warren Buffett-Owned TSX Stock Yields 3.94%!

Description

When a 900-pound gorilla speaks, you listen — doubly so when they put their money where their mouth is.

Early this year, Warren Buffett made waves by buying 10.5 million shares of **Suncor Energy** (TSX:SU)(NYSE:SU). It was a classic contrarian Buffett move. Just when everybody was declaring the death of the tar sands, Buffett went ahead and scooped up a position in one of Canada's largest integrated energy companies.

It's not immediately clear whether Buffett's Suncor bet has played out well so far. The stock is actually down since the news of Buffett's purchase broke on February 4, although the position was built up in the fourth quarter of 2018, when the stock was cheaper. In a statement, Buffett said that the Suncor investment was largely a bet on energy prices, so we'll have to see how that plays out.

However, regardless of what happens to Suncor's share price, the stock does have one feature that dividend investors should pay attention to:

A high and growing yield

At present prices, SU yields about 3.94%, which is far above the **TSX** average of 2.5%.

Additionally, the stock's dividend has been increasing over time, with a dividend growth rate of 12.4% annualized (based on the past five years).

If you buy $100,000 worth of SU now, you'll get $3,940 worth of dividends a year–assuming no further increases are coming. Based on past history, more dividend increases likely *are* coming–although major weakness in oil & gas prices could put a damper on that.

Nevertheless, as you're about to see, Suncor has a major ace in the hole that leaves it less vulnerable to *small* oil price fluctuations than most energy producers.

Not your average energy company

Suncor Energy is different from other energy companies in one key respect: complete control of the sales pipeline from extraction to sale.

Similar to most Canadian energy producers, Suncor Energy has extraction and refining facilities in the tar sands. It also markets some of the oil it extracts to buyers in other countries.

However, Suncor also has its own chain of 1500 Petro-Canada gas stations that sell gasoline. This means that Suncor captures more value from each barrel of oil it produces, compared to energy companies that sell raw crude to other companies.

Suncor isn't alone in having this business model. Many of the U.S.-based energy giants also operate their own gas stations. However, Suncor is one of the few home grown energy companies to operate this way, giving it profitability advantage over many of its Canadian competitors.

Why Buffett likes it

Buffett has gone on the record as saying that his Suncor Energy investment is partially a bet on oil prices.

However, that's not the only possible reason he bought the stock.

In addition to the aforementioned dividend growth, the company is fairly cheap, with a trailing P/E ratio of about 13.5, making it a value play. The company's chain of gas stations give it a profitability advantage over many other tar sands companies and could be considered a kind of economic moat.

Finally, the Suncor energy is buying back shares, a vote of confidence from management that Buffett tends to view favourably.

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