A Top Canadian Dividend Stock to Buy for 2020

Description

Which dividend stocks are most likely to outperform in 2020? It's not an easy question to answer at this time. A couple of months ago, it was all about a flight to safety, as investors worried about global growth, and a recession seemed imminent.

But since the U.S. and China showed progress in their trade talks, and the U.S. Federal Reserve began cutting interest rates, investors are again snapping up growth stocks, and they're willing to add more risks to their portfolios.

All the major North American indexes are trading close to their records, while yields in the bond market have stabilized. If this trend continues, we're in for another bull run in 2020, and that means stocks tied with the economic growth will do much better.

If you buy this line of argument, then the time is ripe to buy some top oil stocks. In this space, I like those oil stocks that pay regular dividends and have integrated businesses. If you're planning to add a reliable energy stock to your portfolio, then I strongly recommend **Suncor Energy** (TSX:SU)(NYSE:SU), Canada's largest oil sands producer.

During the past one year, Suncor stock didn't do much for its investors, as its value remained depressed due to volatile and weakening oil markets. Global economic headwinds and Canadian pipeline constraints — which limited oil producers' ability to ship their products to overseas markets — are some of the negative factors that contributed to Suncor's downturn.

For the third quarter, Suncor reported a nearly 43% fall in quarterly profit. Net profit fell to $1.04 billion, or $0.67 per share, in the period that ended Sept. 30, from $1.81 billion, or $1.12 per share, a year ago. The company produced a total of 762,300 barrels of oil equivalent per day (boepd) from 743,800 boepd in the year-ago quarter.

Power to rebound quickly

Despite this earnings setback, Suncor is a stock that could rebound quickly if the oil markets show strength and demand recovers. The company has a history of thriving in both good and bad market conditions.

What helps Suncor continue to generate strong cash flows is its business diversification. The company not only holds the largest reserves in the oil sands, but it also owns and operates four refineries, Canada’s largest ethanol plant, wind farms, and 1,500 retail outlets.

As oil prices recover and refining margins strengthen, Suncor is in a much better position to produce more cash from its diversified operations than a normal oil producer.

Due to the company’s strong cash flow-generation capability, its stock has been a reliable income generator for long-term investors, even in the worst environment for oil companies. Suncor has a solid history of rewarding investors with growing dividends.

The oil giant has been sending dividend cheques to its shareholders for about quarter of a century. After a 17% hike in its payout in 2019, the company now pays a quarterly dividend of $0.42 a share. For income investors, this is a great incentive to buy this dividend stock, which usually comes out stronger from an oil market downturn

Bottom line

After the pullback of this year, Suncor stock is trading at an attractive level. With an annual dividend yield of 4% and with a great upside potential, I find Suncor a good candidate for 2020 if you plan to hold it over the long term.

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