If You Don’t Buy Suncor (TSX:SU) Shares Today, You’ll Be Kicking Yourself Later

Description

Many investors have sworn off the energy sector completely after being hurt in the carnage that impacted the sector in 2014–15.

Let me remind you what happened, just in case you’ve pushed those memories into the furthest corner of your brain. Formerly high-flying energy stocks plunged as much as 90% as the price of crude oil collapsed. Many of these companies paid generous dividends, payouts that were at first slashed and then quietly eliminated.

Many investors responded in a fairly predictable way. First they started bottom fishing, enticed by the bargains offered if crude oil ever returned to $100 per barrel. Then, after a while, reality set in. Many folks punted their oil stocks near the bottom, swearing off the sector forever.

It’s now been a few years and oil continues to be perhaps the TSX’s most depressed sector, even after the price of crude has largely stabilized. This is creating a compelling buying opportunity, but only in select securities. Investors must protect themselves in the case of another crude oil bear market. The easiest way to do this is to limit your investing universe to the top players in the energy sector.

For me, there’s one clear winner. **Suncor Energy** (TSX:SU)(NYSE:SU) is the best energy company in Canada, and it isn’t even close, either. Here’s why you should be adding this stock to your portfolio… before oil recovers and it’s too late.

Steady production

One of the dirty little secrets of conventional oil production is that producers must be constantly drilling new wells to maintain production. The average oil reservoir is tiny compared to what it used to be, so these assets are depleted after just a few years.

Let’s compare that to the oil sands, which is where Suncor gets the majority of its production. Yes, the oil sands require a lot of upfront investment. We’re talking billions of dollars from exploration to construction to production. But then the producer gets decades worth of crude oil production at a low cost per barrel.

This means that a company like Suncor can continue to deliver fairly consistent cash flow even if the price of crude oil collapses.

In fact, Suncor was buying assets in the region during the darkest times for the sector.

Suncor's production today is close to 800,000 barrels per day, with the vast majority of that coming from the oil sands. But it's also investing heavily in offshore production both in Atlantic Canada and in the North Sea, areas where it usually hedges its bets by taking on various partners.

Downstream assets

Suncor's downstream assets are pretty much the whole reason why I own the stock. I really like that part of the business.

Let's start with the company's refineries. It owns four refineries, in Edmonton, Sarnia, Montreal, and Colorado. These refineries are capable of processing just under 500,000 barrels of oil per day, much of which then gets shipped out to Suncor's 1,500+ *Petro-Canada* gas stations.

The beauty part of the downstream business is it delivers profits no matter what the price of crude oil does. In fact, these downstream earnings are easily enough to fund Suncor's dividend. That fact alone makes the 4% payout secure.

Giving back to shareholders

Suncor's dividend growth streak gets a lot of attention. The company has raised the payout each year since 2002, an impressive thing to do through the ups and downs of the energy business cycle.

But I'm going to instead focus on the company's share buyback program, which doesn't get nearly as much attention. From 2017 to 2019, Suncor has spent more than $5 billion on share buybacks. It also spent billions on buying back shares from 2011 to 2014, too.

The bottom line

Suncor is an excellent company. It's truly the best choice today in the entire energy sector, which will eventually recover again. Do you want to be left on the sidelines when that happens?–

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Date
2025/08/23
Date Created
2019/12/01
Author
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