



## CPP Pensioners: This Dividend Stock Is a Solid Addition to Your Portfolio

### Description

The investment motto for retirees is simple. They need to invest in stocks with strong fundamentals, which means companies need to have stable cash flows, an optimal capital structure, and a solid dividend yield. A low beta stock is ideal for risk-averse investors.

Here we look at one such company that ticks most boxes. **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is a Canada-based integrated energy company focused on developing Canada's petroleum resource basin, Athabasca oil sands. Suncor generates the majority of revenue from Canada and a small portion from the United States.

Suncor is one of Canada's largest companies. With a market cap of \$68 billion and an enterprise value of \$84.9 billion, Suncor is a domestic heavyweight. In terms of valuation, Suncor stock is trading at a forward price to earnings multiple of 14.1.

Compare this to the company's expected earnings growth of 11% in the next five years and we can see that the stock is undervalued, especially after considering its juicy dividend yield of 3.73%. Analysts expect Suncor sales to grow by 1.7% to \$39.65 billion in 2019 and by 1.4% to \$40.2 billion in 2020.

In the last 12 months, Suncor stock has returned 7.6% compared to the **S&P 500** return of 25%. While Suncor has underperformed the broader market in the last year, its stock appreciation of close to 8% can be considered steady for pensioners, if not phenomenal.

Suncor stock has gained in the last year despite missing analyst earnings estimates in three of the last four quarters. Suncor missed analyst earnings estimates of \$0.73 by 1.4% in the September quarter. In the second quarter of 2019, its earnings of \$0.80 were 8% below estimates of \$0.87.

In the first quarter of 2019, Suncor reported earnings of \$0.77, 45.3% above estimates of \$0.53. In the fourth quarter of 2018, Suncor reported earnings of \$0.36, which was 35% below estimates of \$0.55.

## Suncor part of Warren Buffett's portfolio

Warren Buffet's **Berkshire Hathaway** [has a 1% stake in Suncor](#). Canada's energy sector was impacted in the second half of 2018 as they were impacted by [surging supply overloaded pipelines](#).

Suncor has benefitted from vertical integration, as it owns all aspects of the supply chain. The company drills and transports oil using its own pipelines, which made a mighty huge difference during the downturn.

Last month, Suncor released its 2020 corporate guidance. The company has targeted incremental free cash of \$2 billion by 2023. Suncor will invest between \$5.4 billion and \$6 billion annually in oil-related projects. Upstream production is estimated at between 800,000 and 840,000 barrels of oil equivalent per day.

This is a 5% production increase compared to the midpoint guidance for 2019. Suncor's CEO Mark Little stated, "During 2019, we've demonstrated the value of our asset integration and flexibility through our focus on value over volumes, optimizing our product mix and transferring production quotas among our assets."

This unique competitive advantage means we're able to realize the highest value possible for our produced barrels, even during a period of production curtailment."

Suncor has a debt balance of \$17.7 billion. It has cash reserves of \$2.1 billion with operating cash flows of a healthy \$11.16 billion, indicating enough reserves to make interest and debt payments.

The company's dividend payout ratio stands at 51%, again suggesting substantial room to increase dividend payments, making it a solid bet for income investors.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
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