A Top Dividend Stock Selling Absurdly Cheap

Description

Betting on top oil stocks has never been easy. The biggest challenge investors face when evaluating energy stocks is correctly predicting the direction of oil markets. This, of course, is an almost impossible task given the extremely volatile nature of the commodity.

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Just when the global economy was coming out of a long period of uncertainty caused by the U.S.-China trade war, a new risk to global growth emerged in the shape of the coronavirus. This outbreak, a great human tragedy for many who have been affected by it, is also being seen damaging to global growth and, by extension, to energy markets.

OPEC, a body representing oil producers, sees the impact as minimal, having just cut its first-quarter forecast for global oil demand by only 400,000 barrels a day. But the International Energy Association, however, has quite a bleak outlook. Its downward revision is three times as big, and if its forecast proves correct, it's deep enough to tip the world into its first year-on-year drop in demand in more than a decade, according to *Bloomberg.*

Given this uncertain situation, picking the right oil stock has become more challenging. But when things look awful in any sector, it is the time to look for opportunities and find deals. In the Canadian oil space, one top dividend stock that investors should keep under their radars is the oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU).

After losing about 13% of its value since mid-January on coronavirus concerns, Suncor's valuation has become compelling, providing investors an opportunity to build a position in this solid company.

Vertical integration

Suncor's vertical integration in Canada's oil sands makes it a strong candidate for your long-term investment, especially if you're looking to earn growing dividend income. Due to this integration, the producer has been able to weather Canada's oil slump coming from Alberta's pipeline bottlenecks.

The company's integrated business model allows the company to dig for oil, refine it, and sell it through its 1,500 gas stations. Rival oil sands companies are more exposed to volatile commodity prices and pipeline constraints, but Suncor's presence in almost every stage of the energy supply chain makes it somewhat insulated.

In the short run, Suncor's earnings are under pressure as oil prices enter a weak phase. This month, Suncor reported a net loss of $2.3 billion for the fourth quarter of 2019 due mainly to asset-impairment charges.

The Calgary company says about $2.8 billion of the charges are related to lower forecast oil prices for production from its Fort Hills oil sands mine in northern Alberta. But despite these losses, Suncor was able to hike its payout by 10% to $0.465 a share. With most of the large projects nearing completion, Suncor executives have been signalling that the company would use cash on its books for dividend hikes and share buybacks.

Bottom line

Trading at $39.85 at writing and with an annual dividend yield of 4.75%, Suncor has many catalysts that could move its stock higher from these levels. According to analysts' 12-month price target of $50, Suncor has the upside potential of more than 25%. If you're looking to add a quality dividend stock to your portfolio, Suncor may be just right for you after the recent pullback.

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