
# Top TSX Stocks: Which Dividends Are Safe With Oil Prices Tumbling?

## Description

As demand for energy products collapses after global lockdowns, top TSX oil stocks are coming under extreme pressure. Amid this gloom, many analysts have started to question the viability of their once sacrosanct dividends.



The biggest reason that's causing doubts about the top oil stocks' ability to continue paying dividends is that demand for energy products is in a deep slump, and there is little hope that it will recover soon.

Less than a week after an historic agreement by producers to cut production, OPEC predicted that demand for its crude will drop to the lowest level since early 1989.

Earlier this week, the International Energy Agency (IEA) predicted the world may soon run out of places to store the commodity as demand evaporates. West Texas Intermediate for May delivery is trading close to $18 a barrel this morning, with cargoes of Brent trading at steep discounts, according to **S&P Global Platts**.

Since COVID-19 forced governments to lock down their citizens and close businesses, many TSX-listed companies have cut or reduced dividends. But top producers, such as **Suncor Energy** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), have so far avoided announcing dividend cuts, while focusing their attention to spending controls.

## Uncertain time for top oil stocks

This could change before the year is out, as production and cash flow fall and debt levels climb as a percentage of their overall value, according to a report by **Toronto-Dominion Bank** and carried by the *Globe and Mail*. "In the absence of a material improvement in the fundamental outlook for upstream/downstream [production and refining] in the coming months, we may see a cut from one or more of these companies towards year-end," the bank said in a report for its clients.

This is no doubt a very uncertain time for these top oil producers, whose stock values have been plunging. Suncor stock, for example, has fallen more than 50% this year to trade at $20.67 at the time of writing.

After the plunge of this magnitude, the stock now yields more than 9%, showing investors' anxiety over the company's future dividend payments. CNQ stock, after dropping 59%, now yields more than 10%.

Even if travel restrictions are eased in the second half of the year, the IEA projected this year's global oil demand will fall by 9.3 million barrels a day from 2019, erasing almost a decade of growth.

In this highly uncertain environment, 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, I prefer Suncor over other producers.

Suncor's vertical integration in Canada's oil sands makes it a strong candidate for any long-term investment. 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 a stronger candidate.



## Bottom line

Top oil stocks are likely to remain under pressure as long as oil demand remains depressed. For oil bulls and contrarian investors, buying Suncor should make sense, given the company's integrated business model, which could save its dividend.

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