Suncor (TSX:SU) Stock: Time to Sell?

Description

It has been a very busy week for investors, as earnings season has ramped up in a big way. With oil prices trading at prices not seen in decades, all eyes were on oil majors. As one of Canada's best, **Suncor's** (TSX:SU)(NYSE:SU) stock is one that most were following.

First, the good news. A net loss of $0.20 per share beat by two cents, while revenue of $7.39 billion beat by $10 million. That is pretty much where the good news ends. First-quarter revenue was down 21.4% over the first quarter of 2019.

The company's $3.5 billion loss, albeit disappointing, is not all that surprising. Low oil prices are persisting, and it appears that prices will remain depressed for some time. It is, however, a far cry from a $1.47 billion profit in the same quarter last year.

Year to date, Suncor stock is down 45.3%, and until oil prices recover, don't expect a meaningful rebound anytime soon.

Suncor stock is no longer a top income play

As a Canadian Dividend Aristocrat, the company was an attractive income play. Last week, **Imperial Oil** kept its dividend steady. This led to a glimmer of hope for Suncor shareholders.

Unfortunately, it was not to be, and the company's dividend is yet another casualty of the current bear market. Along with earnings, the company slashed the dividend by 55%.

As such, Suncor's 17-year dividend growth ends with a thud. It joins eight other Aristocrats in cutting or suspending dividends. Suncor's 17-year run is also the longest dividend-growth streak that is now at an end.

Suncor stock now yields approximately 3.5% and pays out a quarterly dividend of $0.21 per share. Is the dividend now safe? Not necessarily.

Slowing cash generation

Leaving the massive net loss aside, the safety of the dividend is best analyzed in terms of cash flows. Since earnings contain many one-time items, the payout ratio as compared to earnings can be misleading. Likewise, since the dividend is a cash outlay, it is best compared against cash inflows.

Suncor is doing everything it can to conserve cash. On top of cutting the dividend, it is also suspending share buybacks and cutting the capital budget by $400 million. Unfortunately, this may not be enough to ensure the ongoing safety of the current dividend. Despite a more respectable yield, Suncor stock is not one investors should chase for income.

In the first quarter, Suncor generated $1 billion in funds from operations, a significant dip from the $2.6 in the prior-year quarter. Furthermore, it is delaying the free funds flow target of $2 billion by up to two years. It may take until 2025 to achieve this goal.

More telling, however, is the company's cash breakeven point. To cover operating costs, sustaining capital, and the dividend, West Texas Intermediate (WTI) oil prices need to average US$35 per barrel.

Notice that this definition does not include the capital budget in which the company is now guiding to $3.6-$4 billion in spending. At this point, WTI prices to dot have a clear path to a rebound and are likely to be considerably volatile.

Foolish takeaway

Suncor still remains one the best-in-class integrated oil majors. If, however, you are relying on the Suncor stock for stable and reliable income, it is time to look elsewhere.

Economic uncertainty remains, and oil demand is nowhere near recovering to pre-COVID-19 levels. Until such time, the safety of the dividend remains in question.

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Date
2025/06/30
Date Created
2020/05/06
Author
mlitalien