Suncor (TSX:SU) Slashes Dividends by 55%

Description

Suncor Energy (TSX:SU)(NYSE:SU) must have lost loyal investors after the oil sands king slashed its dividend by 55%. The shocking news came in early May 2020, when the company had no choice but to contain steep losses.

The oil stock is losing by almost 44% year to date, although billionaire investor Warren Buffett is still keeping Suncor in his stock portfolio.

Playing defensive

Suncor is playing more defensive as the company struggles to cope with record low crude prices. The quarterly dividend cut, from 46.5 cents to 21 cents a share, shrank the payout ratio.

Aside from slashing dividends, the company is also reducing the range of capital spending in 2020 for the second time. The original reduced range in March was between $3.9 billion and $4.5 billion. In the recent revision, the range will be $3.6 billion to $4 billion.

Suncor reported a $3.52 billion net loss in the first quarter of 2020 versus the net earnings of $1.47 billion in the same period in 2019. But the company is not alone in incurring huge losses. Most global oil producers are in the same boat.

Maintenance work in its MacKay River operation is also on hold. The same goes for the Terra Nova venture off Newfoundland and the project in Labrador's coast. Suncor is exploring options as to when and how it can resume maintenance works.

Glimmer of hope

Suncor remains one of the biggest names in the energy sector. This $35.7 billion integrated energy can bounce back from the slump. The company is proficient in finding, pumping, storing, and delivering its resources because it has adopted high tech solutions for the said purposes.

Market observers are optimistic. They believe Suncor has an excellent long-term outlook. The company has the advantage due to its focus on technological advances in oil sands production, which we will witness in the near term when the next shale boom is in oil sands.

The company is a soon-to-be leader in renewable energy. If you recall, Suncor invested $300-million in a wind power project in the County of Forty Mile, Alberta last year.

When complete, the “Forty Mile Wind Power Project” will have 89 wind turbines that can generate 400 megawatts of power. Suncor needs high-return projects that are mostly independent of pipeline constraints and commodity price volatility.

According to Suncor CEO Mark Little, the company will continue to focus on value over volume. Before the pandemic, management was targeting a $2 billion incremental free funds flow by 2023.

Stay on the sidelines

Suncor Energy is underperforming, which is discouraging for an energy giant. But the company is only doing what it needs to do – conserve cash. It has to remain stable in case another round of oil price plunge happens. The reduced 3.49% dividend should be safe for now.

Some investors are sticking to this oil stock because Warren Buffett owns it. It also has the support of Saudi Arabia’s sovereign wealth fund, the Public Investment Fund (PIF). For me, I’m staying on the sidelines and watch how things will play out. I see too much risk to take a position at this time.

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