Forget Suncor (TSX:SU): This Energy Stock Has a 7.5% Yield!

Description

Suncor Energy (TSX:SU)(NYSE:SU) is one of Canada's biggest energy companies. With a $30 billion market cap, it's by far the largest of its peers. However, that doesn't make it a great investment. Suncor Energy's glory days were in the 1990s and early 2000s, when energy prices were rising seemingly with no end in sight. Since then, SU stock has been a losing proposition.

In many ways, Suncor's questionable results have been beyond its control. The energy industry has broadly been suffering in recent years, thanks to volatile oil prices that have on average been lower than they were in the early 2000s. In this environment, it's hard for an energy extraction and marketing industry to succeed.

That doesn't mean there aren't good energy plays out there though. If you look into pipelines, they're not as exposed to the risk factors that upstream energy companies are. While they're not totally risk-free, they could be good buys at today's prices. In this article, I'll be looking at one pipeline company that sports a whopping 7.5% yield.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is Canada's largest pipeline company. It transports oil and gas all over North America. The company plays a vital role in transporting tar sands crude to the United States. Over the past decade, it has been a far better investment than Suncor Energy, rising 76%, compared to Suncor's 43% decline.

The company's comparative success can be explained by its business model. Pipelines don't make money by selling oil. Instead, they charge fees to transport it. Their fees and overall business are highly regulated, making pipelines somewhat similar to utilities. An energy extraction company needs both the supply *and* demand sides of the equation right to make money. With a pipeline company, as long as there is *demand* for oil, they can make money charging transportation fees. This makes their business model less sensitive to the broader economy compared to upstream energy companies.

Why it has such a high yield

While Enbridge’s stock has been a winner over the past decade, the past five years haven’t been as kind to it. Ever since the oil price crash of 2014/2015, its stock has been extremely volatile, trending mostly downward. Despite that downward momentum, though, ENB’s earnings have actually grown. On the strength of that earnings growth, the company has increased its dividend. So, we now have a situation where ENB yields a positively stunning 7.5%.

In 2020, Enbridge looks set to keep paying its dividend. While the company technically ran a $1.7 billion loss in Q1 (thanks to non-cash factors), it swung back to a $1.65 billion profit in Q2. This was possible because of ENB’s transportation contracts, which are usually set in advance. So, while Suncor is still losing money, Enbridge is already back to solid profits after the COVID-19 market crash. Overall, Enbridge is a very solid dividend play.

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Date
2025/09/14
Date Created
2020/09/04
Author
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