Should You Invest in Suncor (TSX:SU) Stock for Its 5% Dividend Yield?

Description

Shares of Canada's energy giant **Suncor** (TSX:SU)(NYSE:SU) have grossly underperformed the broader market. The stock is down 61% in 2020 compared to the 6.4% decline of the **iShares S&P/TSX 60 Index**.

This massive decline in Suncor stock has meant it now has a forward yield of a tasty 5%, despite the firm cutting its dividend payout by 55% earlier this year. Suncor, similar to energy peers, has been impacted by the COVID-19 pandemic and falling crude oil prices. While tech stocks have driven the recovery in broader markets, oil and energy companies are languishing at multi-year lows.

So is Suncor Energy stock a good contrarian bet or will its recovery be delayed amid a sluggish macro-environment?

Warren Buffett increased his stake in Suncor Energy

Warren Buffett remains bullish on Suncor Energy and increased his stake in the heavyweight in Q2. According to **Berkshire Hathaway's** recent 13F filings, it now owns 19.2 million Suncor shares, up from 14.5 million shares at the end of Q1. The energy space has been a train wreck in 2020 and this gave Buffett an opportunity to buy the stock at lower multiples.

Suncor is an integrated company which enables it to take advantage of higher oil prices by increasing drilling activities. Similarly, it can also hedge against weaker price environments by leveraging its downstream refining operations.

Suncor can refine the crude it produces from Canadian Tar Sands, allowing it to generate robust profit margins on the refined products. The Canadian west coast ports also provide Suncor access to demand markets in Asia, one of the fastest-growing regions in the world.

A weak macro environment

Suncor ended Q2 with a cash balance of $1.9 billion and total debt of $22 billion, giving it enough liquidity to ride out the downturn. It has also lowered capital expenditure forecasts by a third to its midpoint guidance of $3.8 billion for 2020.

Suncor is also trading at a cheap valuation. Its price-to-sales multiple is 0.89 while it has a book ratio of 0.75. However, these multiples are cheap for a reason.

OPEC countries recently provided a grim forecast and expect oil demand to be tepid in the upcoming months. Demand from India, that accounts for 4.6% of the world's oil consumption is not expected to recover before June 2021.

There is also a threat of another round of shutdowns as COVID-19 cases are rising in several countries including Canada. If these fears come true, investors can expect oil stocks to move lower by the end of 2020.

Suncor reported a quarterly loss of close to $600 million in Q2. It might find it difficult to service interest obligations due to negative cash flows and profit margins. Does this mean investors need to brace for another round of dividend cuts?

The Foolish takeaway

Suncor increased dividends for 18 consecutive years before COVID-19 decimated this capital-intensive sector. Analysts expect Suncor's sales to fall by 33% and earnings to decline by a hefty 148% in 2020.

Dividend payments are not a guarantee and there is a good chance for Suncor to suspend them entirely if the oil recovery is delayed.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2020/09/25
Author
araghunath