Forget Suncor Energy (TSX:SU): These Stocks Can Give You $4,500 Annually

Description

Stock market investing can be a risky bet in the short term but a safer bet in the long term. However, once in a while, there is a major economic crisis that leaves no security safe. This was the case with **Suncor Energy** (TSX:SU)(NYSE:SU). The Canada-based oil company was doing well with its integrated business model.

Suncor Energy: The past, present, and future

Since 2008, Suncor has been steadily increasing its dividend every four to six quarters. But the COVID-19 pandemic forced the oil giant to cut its dividend by 55% in May. This dividend cut hinted that the company is preparing for multi-year losses.

After over a century of profits, the oil industry entered a crisis in 2014. The shale-gas exploration reduced the cost per barrel from over $100 to $48. Even at that time, Suncor continued to increase its dividend, as lower oil price boosted demand, thereby increasing its revenue from refining and retail operations.

However, the pandemic has impacted both oil demand and supply. The lockdown grounded planes, closed factories, and emptied roads, significantly reducing oil demand. This sudden dip in global oil demand left oil companies with no place to store inventory. Hence, they reduced production. Even now, as the economy is reopening, there is plenty of inventory that oil companies have to use before starting production in full capacity.

With both demand and supply environment bleak, all oil companies, including Suncor, are cutting costs and reducing capital expenditures to maintain liquidity. Unlike airlines, Suncor has long-lived assets that protect it from the depreciation burden. The next two years are challenging for Suncor, with no sustainable recovery in sight. If it survives these two years, its stock will start to recover and could even rise 200% to the pre-pandemic level of $45 in five years. From there, Suncor has a bright future for the next 15 years before renewable energy becomes commercial enough to replace oil in most cases.

Don’t wait for Suncor Energy when you have better options

Five years is a long time. If you want exposure in energy, a better option is **Enbridge** (TSX:ENB)(NYSE:ENB). For dividends, **RioCan REIT** (TSX:REI.UN) is a better option. The short-term energy headwinds have discounted Enbridge and RioCan stock price by 30% and 45%, respectively. But they didn’t cut their dividends when the pandemic was at its peak. They are unlikely to cut dividends because of the pandemic, as they still have high cash flows and profits.

Enbridge

Warren Buffett invested $10 billion in **Dominion Energy’s** natural gas pipeline business and less than $320 million in Suncor. Dominion’s Canadian counterpart is Enbridge, which transmits oil and natural gas through its pipeline network for a fee. It doesn’t have exposure to oil prices but to oil demand. When oil demand increases, a larger volume of oil passes through its pipelines, which earns it higher fees.

Enbridge has a 25-year history of paying incremental dividends. This dividend growth comes as it increases its cash flows by building more pipelines. It expects to increase its cash flow between 5% and 7% through 2022, which means it would continue to grow dividends in the coming years.

RioCan

RioCan has a 20-year history of paying dividends and never cutting them, despite the 2009 financial crisis. The company has a diversified retail tenant base, with no single retailer accounting for more than 5% of its revenue. The pandemic has created the risk of rent defaults, which would be mitigated by security deposits and government packages.

The next risk is a decrease in occupancy rate, which would be mitigated by its properties in prime locations. Even though RioCan reported a net loss of $350.8 million in the second quarter, it was not a cash loss. Once the economy normalizes, shops will start filling up, and rent will start flowing in.

Investor takeaway

If you have $50,000 in your Tax-Free Savings Account, leverage the current opportunity and lock in high dividends for a lifetime. Invest $25,000 each in Enbridge and RioCan and earn $4,500 in annual dividends. In five years, when the pandemic subsides, and the stocks recover, they would earn you $56,350 ($22,600 in dividends and $33,750 in capital appreciation) in investment income.

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