This 3.34% Dividend Stock Could Have a Breakout Year

Description

The energy sector was battered and bruised in 2020, including **Suncor Energy** (TSX:SU)(NYSE:SU). If you recall, the oil sands king is a Dividend Aristocrat until the COVID year. Management had to slash dividends by 55% in Q1 2020 to preserve cash and preserve the balance sheet.

Investors didn't expect Suncor Energy to make such a drastic move. Many of them dumped the erstwhile Dividend Aristocrat, but not Warren Buffett. His conglomerate **Berkshire Hathaway** still owns about 13.8 million shares as of year-end 2020. Suncor Energy is the lone Canadian stock in its stock portfolio.

This year, the fortunes appear to be changing for the beleaguered energy stock. Suncor's gain, thus far, is 20.2%. Market analysts are bullish and anticipate a breakout year. They forecast a 108.2% climb to $53 in the next 12 months. If you were to invest today, the dividend yield is 3.34%.

Improving financials

Suncor Energy is a premier name in the oil and gas space, so only a few doubt its ability to emerge stronger following last year's debacle. In Q4 2020, the operating loss went down to $142 million compared to $302 million in Q3 2020. The net loss for the quarter was $168 million.

The refinery utilization went up to 95% versus 87% in the preceding quarter regarding reliable operations. Likewise, the $31.03 billion company reduced its annual operating costs in 2020 by $1.3 billion — 12% better than its previously announced target.

Value over volume

Suncor weathered the storm throughout 2020 by maintaining its focus on value over volume. Management leveraged its broad asset base and operational flexibility to maximize the value of its allotted barrels. It was in line with Alberta's mandatory curtailment program. Effective December 2020, the provincial government suspended monthly limits on production under the curtailment system.

As a result of strong domestic sales network and export channels within the downstream business, Suncor achieved 100% utilization across our Canadian refineries in the year-ending quarter. Notably, the company outperformed the Canadian refining average again.

Furthermore, Suncor realized a $291 million reduction in total operating, selling, and general expenses in Q4 2020 compared to the same period in 2020. The aggressive cost-reduction measures are paying off, including the capital-reduction target. It successfully reduced capital expenditures by 33% to $3.8 billion.

Key takeaways

Some industry analysts believe the current share price is a steal, because Suncor is grossly undervalued. The upside should be tremendous if oil prices increase and demand is stable. If non-essential travel returns in 2021, refining margins are likely to expand.

Remember, Suncor is among the select few that owns a refinery directly linked to oil sands. It can process multiple crude types, although the majority is diesel and gasoline. In a low oil price environment, an expanded throughput capacity increases refining margins. Moreover, this side of the business acts as a hedge when prices are low during production.

Suncor Energy is one of the low-cost producers in Canada's oil sands. Unfortunately, downside risks are ever present. The company won't achieve double-digit cash flows and reduce leverage rapidly if oil prices slump once more. But I wonder why Buffett isn't ditching his only TSX asset. Suncor Energy is a value stock.

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