



Suncor Energy: A Dirt-Cheap TSX Dividend Stock Pick for June 2021

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock and the broader oil patch were under a seemingly insurmountable amount of pressure last year, but things are [finally looking up](#) going into June 2021. Oil prices [collapsed](#), briefly entering negative territory, before bouncing back and steadily rallying into the year's end. After the recent strength in WTI (West Texas Intermediate), the prospect of US\$80 or even US\$100 WTI doesn't seem nearly as far-fetched just over a year after it had a negative value.

Last year proved to be a rocky road for all Canadian fossil fuel firms, especially Suncor Energy, which gave its balance sheet a boost by bringing its dividend to the chopping block. The dividend reduction was overly conservative, and the balance sheet was never in trouble to begin with.

While dividend investors have likely jumped ship because of the unprecedented move, I think it's a mistake to sleep on the integrated energy giant, even though it has surrendered the title of king of the Albertan oil patch to its peer in **Canadian Natural Resources**, which kept its payout intact while acquiring natural gas play Painted Pony Energy at a very reasonable price.

Suncor stock's low dividend has room to grow

Can you really fault Suncor for playing it safe, though? Probably not. The company can very easily reverse the dividend reduction over the near to intermediate term. And I suspect a generous raise could be in the cards for patient investors who've stood by the name, as it lost ground in what was a perfect storm of headwinds.

Surprisingly, [Warren Buffett](#) threw in the towel on the last of his Suncor shares. You would think that Buffett would have upped his stake with shares trading at just 1.15 times book value. But that wasn't the case, as Buffett is now more fond of higher-yielding TSX stocks in this inflationary environment.

At the time of writing, Suncor sports a 3%-yielding dividend, which is well covered by operating cash flows. The payout is far less bountiful than most other TSX stocks in the Canadian energy patch, most notably the pipelines, which sport yields well north of the 5-6% mark. As operations inch closer towards normalization, the payout ratio will stand to compress, and one has to think that a series of very

generous dividend hikes will be in store.

In any case, I think the name could be positioned to bounce as the dividend inches higher, and operations stabilize further in this higher-oil-price environment.

Suncor's investor day was encouraging

For income-savvy investors willing to forgive, there's a lot to gain by going against the grain with Suncor stock. The company recently shed light on its five-year roadmap in its first investor day in around six years. In the roadmap, the firm unveiled a "net-zero by 2050" plan, upped guidance, and a very encouraging shareholder return framework that should last through 2025.

A combination of dividend hikes and share repurchases should propel Suncor much higher over the next few years, as the conservative management team shifts gears in response to the more promising industry backdrop, which could include some positive surprises in the post-pandemic environment.

Bottom line

There's a lot to look forward to with Suncor stock at these depths. Commodity prices are booming, cash flows are recovering, and the firm is well positioned to be a top performer in an inflationary environment. If all goes well, I think the TSX stock could make a run for its 2020 highs of \$44 and change over the next 18 months. That suggests around 57% worth of upside, dividends not included.

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