1 Energy Stock That's Not a Dividend Trap Like Suncor Energy (TSX:SU)

Description

Income investors occasionally fall into dividend traps. It's hard to pass up on companies that offer higher yields than others. However, it could happen the payouts aren't safe or sustainable. The consequence is a cut in dividends or stopping payments entirely.

Suncor Energy (TSX:SU)(NYSE:SU) investors had the experience of biting the bullet when management decided to slash dividends by 55% in 2020. It was a painful but necessary decision to preserve capital and protect the balance sheet. The oil bellwether lost its Dividend Status as a result.

Imperial Oil (TSX:IMO) would be the most stable dividend payer if you were to invest in the energy sector. The dividend track record of the integrated energy company is the longest in the industry. You won't suffer the same fate as Suncor investors before.

Turnaround in 2021

Suncor remains a viable option for income investors. The dividend trap last year was inevitable, given the circumstances. Fortunately, the $39.26 billion oil sands king has turned things around in 2021. At $26.45 per share, the trailing one-year price return is 60.4%. Based on analysts' forecasts, the return potential in one year is 38.42%. The dividend yield stands at 3.17%.

In the first half of 2020, Suncor incurred a $4.13 billion net loss. However, in the six months ended June 30, 2021, net earnings reached $1.69 billion. The financial results amazed investors. Notably, funds from operations increased 384% to $2.36 billion in Q2 2021 versus Q2 2020.

Suncor is back to generating significant cash flows like before. Management did not lose focus to maximize shareholder returns. The company repurchased about $23 million common shares under its share repurchase program. Also, it paid around $315 million in dividends.

Its President and CEO Mark Little said, “The improved cash generation enabled us to increase shareholder returns to approximately $1.0 billion.” The amount is 40% of Suncor’s funds from operations. Little adds the goal in the back half of 2021 is to reduce debt further.

Strong recovery

Imperial Oil is the subsidiary of American oil giant **ExxonMobil**. It has a market cap of $27.92 billion and has been operating since 1880. The energy stock isn’t a dividend trap because it hasn’t missed a dividend payment since then. Its CEO Brad Corson, proudly said, “We have paid a dividend reliably for over 100 consecutive years now and grown it in each of the last 26 years.”

Thus far, in 2021, Imperial (+69%) outperforms Suncor (+27%), although the dividend offer is smaller (2.53%). Like Suncor, it’s been a turnaround year for Imperial. Net income in the first half of 2021 rose 1,472%, a net loss of $714 million in the same period last year, to net income of $758 million. In Q2 2021, Imperial also posted its highest second-quarter production in 25 years.

Corson said the decisive actions of management throughout the pandemic to accelerate structural business improvements were why the company recovered strongly. The cash flow from operating activities year-to-date reached more than $1.8 billion. Corson adds the quarter was the completion of Imperial’s significant turnaround activity.

Look beyond the yield

It’s natural to be attracted to high yields, but investors should look beyond the yield. Evaluate the company to check whether it can sustain the payouts. If not, it’s a sign of a value trap. Thus, Imperial Oil stands out.

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