Suncor Doubles the Dividend: Time to Buy SU Stock?

Description

Suncor (TSX:SU)(NYSE:SU) reported strong Q3 2021 earnings and announced a 100% increase in the quarterly dividend. The stock is soaring on the news, and investors are wondering if this is the right time to buy.

Suncor Q3 2021 earnings results

Suncor generated $2.6 billion in funds from operations in Q3 2021 compared to $1.17 billion in the same period last year. Operating earnings came in at $1.04 billion, and net earnings hit $877 million compared to losses in Q3 2020.

Higher oil prices and a rebound in the downstream operations fueled the strong results. WTI oil trades near US$81 per barrel at the time of writing compared to less than US$40 a year ago. At the same time, fuel demand is soaring, as airlines ramp up capacity and commuters hit the highways.

Suncor's refining and marketing group contributed $947 million in funds from operations in the quarter. This was the third-best Q3 ever on that metric for the division. Suncor operates four large refineries that make gasoline, jet fuel, diesel fuel, and asphalt. The marketing division includes roughly 1,500 Petro-Canada retail locations.

The refineries operated at 99% capacity in the quarter and fuel sales continued to rebound. Suncor said gasoline and diesel fuel demand was only 7% below Q3 2019 levels.

Production came in at 698,600 barrels of oil equivalent per day (boe/d) compared to 616,200 in Q3 2020. The production numbers are solid considering the company faced some operational challenges at two of its sites in recent months.

Dividend increase

The rebound in revenue and profits is a windfall for Suncor's shareholders. The board announced a

100% dividend increase to a quarterly payment of $0.42 per share. This brings the dividend back to the 2019 level. Suncor slashed the payout in the early days of the pandemic in 2020 to preserve cash. That move didn't go over well with investors, and the stock has underperformed its peers in 2021. The decision to hike the dividend this much heading into 2022 should bring investors back.

Another distribution increase in the first half of 2022 wouldn't be a surprise if oil maintains or extends its 2021 gains.

Share buybacks

Suncor has used excess funds to reduce net debt by $3.1 billion in 2021 and expects to be within its targeted 2025 net debt range by the end of this year. That means more cash should be available to buy back shares and continue to hike the dividend.

Suncor is boosting its current share-buyback program to 7% of the outstanding common stock. The company already repurchased 4.1% of the float since February. Share buybacks benefit investors by giving the remaining stockholders a larger piece of the pie.

Should you buy Suncor stock now?

The stock trades for close to $30 at the time of writing. That's near the 2021 high, but way off the $44 the stock fetched before the pandemic. The annualized dividend yield is about 5.6% on the new payment, and more dividend increases should be on the way in the next few years.

Oil prices are expected to remain elevated for some time. Bulls are calling for WTI to hit US$100 next year or in 2023. With the balance sheet back in shape and the dividend restored to the 2019 level, the stock still appears undervalued today.

If you are an oil bull and have some cash to put to work, Suncor deserves to be on your buy list.

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aswalker