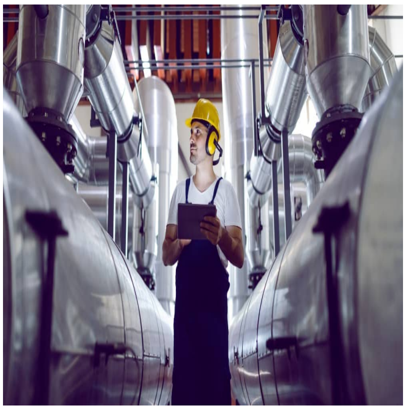

Buy Alert: Suncor Energy (TSX:SU) Raising Dividends to 5%

Description

An oil bellwether made a painful decision in 2020 that disappointed income investors. **Suncor Energy** (TSX:SU)(NYSE:SU) lost its Dividend Aristocrat status because it slashed dividends by 55% after Q1 2020. Management said it was necessary to preserve cash and protect the balance sheet.

Warren Buffett's **Berkshire Hathaway** ditched its entire holdings in Suncor in Q1 2021, although reports say it was due to greenhouse gas (GHG) emission concerns, not business performance. Still, many investors lost money on the energy stock last year apart from the dividend cut.

This year, however, the narrative has changed. The $47.6 billion oilsands king is making money and generating billions of dollars in funds from operations. On October 27, 2021, Suncor announced a dividend boost. At $32.57 per share, you can partake of the 5.12% dividend, a pre-pandemic level.

Furthermore, investors are happier today with their capital gains. Suncor Energy is up 56.8% year to date, which should erase the memory of last year's losses. Had you invested $25,000 in the energy stock at year-end 2020, your money would be worth $39,191.46 on November 9, 2021.

What changed?

Suncor Energy President and CEO Mark Little said, "Since the start of 2021, we have returned $2.6 billion to our shareholders through share repurchases and dividends and have reduced net debt by $3.1 billion." According to Little, it demonstrates significant progress toward fortifying the balance sheet and meeting capital allocation targets for the year.

In Q3 2021, funds from operations increased 126.5% to $2.641 billion compared to the prior-year quarter. Meanwhile, cash flow provided by operating activities ballooned 279% to $4.718 billion versus Q3 2020. The quarter's highlights were in net earnings and operating earnings.

Suncor reported $877 million and $1.04 billion in net earnings and operating earnings during the quarter. In the same period in 2020, losses were $12 million and $338 million, respectively. Operations-wise, Suncor produced 698,600 barrels of oil equivalent per day during the quarter, a 13.3% increase versus Q3 2020.

Little said, “We continue to deliver on capital discipline and our strategy of optimizing our base business.” He emphasizes that management never lost focus on high-margin, low-capital projects that deliver significant returns, cash flow, and long-term value generation for shareholders.

Regaining investors’ trust and confidence

Last year was a forgettable period for Suncor Energy investors because the stock underperformed. Its CEO said, “Any producer that cut the dividend has really underperformed the market.” An analyst at Raymond James, George Huang, sees the latest development as the turning point for Suncor.

Huang said the dividend bump shows “…an underappreciated structural improvement story that is quietly driving a very attractive cash return.” Travis Wood, an analyst at the **National Bank of Canada** Financial Markets, said the recent quarterly results could result in a “catch-up trade” for the resurging energy stock.

Based on market analysts’ forecasts, the return potential of Suncor Energy in the next 12 months is nearly 18%. The company has successfully turned things around, while the stock had a pretty good run or market performance from last year. It won’t be long before it regains investors’ trust and confidence again.

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