Suncor Energy (TSX:SU): There’s Room to Raise the Dividend!

Description

Suncor Energy (TSX:SU)(NYSE:SU) is an energy stock with a very high dividend payout. Yielding 4.1% at today’s prices, it truly throws off buckets of cash. Thanks to the rising energy prices observed in 2021, Suncor was able to raise its dividend after a cut the year before. Today, oil prices are even higher, and Suncor’s ability to pay dividends is even better.

In this article, I will explore Suncor Energy’s dividend and make the case that there is room for the company to raise its dividend once more.

Suncor’s payout ratio

At today’s earnings levels, Suncor Energy has a 40% payout ratio. That means that the company pays out 40% of its earnings as dividends every 12 months. This payout ratio is already fairly low. But it is likely to go lower in the months ahead. Oil prices are currently at their highest levels in many years. Although prices have declined in the last few weeks, they are still way up from prior years’ levels. When WTI crude was above $120, it was at an eight-year high.

Given these high oil prices, Suncor’s earnings for the first quarter are likely to be much higher than they were in the fourth quarter. That could give SU a lot of room to raise its dividend.

Great earnings trend

Even in 2021, when oil prices were just “okay,” Suncor’s earnings were trending upward in a big way.

For the full year, SU delivered

- $4.1 billion in earnings — up from a $4.3 billion loss;
- $3.8 billion in operating income — up from a $2.2 billion loss;
- $10.8 billion in adjusted funds from operations — up 422%; and
- $19.9 billion in revenue — up 90%.

It was a very strong year. And 2022 could be even stronger. In the fourth quarter, oil prices were still below $100. This year, they have risen above that level. So, there is a lot of potential for Suncor to boost its earnings once again.

Oil once again rising

As for where oil prices are heading this year … most likely, they will remain high.

In the weeks prior to this article's publication, oil prices slipped a little, falling to $99. However, on the day of this writing, they rallied 3%. Recently, the U.S. government released 30% of its strategic petroleum reserve (SPR), which eased the pressure that was pushing oil prices upward. The disappearance of Russian oil from the market had been sending prices higher earlier in the year. The SPR release was designed to combat the effect of the supply crunch. It may have had a short-term effect, but it won't last long, as the release is a short-term measure.

Foolish takeaway

Suncor Energy is in a great place right now. Its stock is rising, its earnings are growing, and its dividend payout is safe as milk. If oil prices keep rising, then Suncor may be able to raise its dividend once more. In fact, with its 40% payout ratio, it has room to raise the payout now. But another full year of high oil prices could be the catalyst that makes it happen.

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