



2 Top Commodity Stocks With Rising Dividends

Description

Commodity stocks are on a roll in 2022. Investors who missed out on the surge are now wondering which companies might still trade at cheap prices. One strategy would be to pick names that are likely to keep increasing their dividends.

Suncor

Suncor ([TSX:SU](#))([NYSE:SU](#)) raised its dividend by 100% last fall. The increase would have been more impressive if the board hadn't slashed the payout by 55% in 2020, but the move sent a signal to investors that Suncor has fixed its balance sheet and is in a position to reward investors.

The big move in the price of oil in the first part of 2022 will result in large profit numbers when Suncor and its peers report Q1 results. Investors have pushed the share prices of oil producers higher, but the market might not yet realize how much revenue and profits oil companies are actually generating in this environment.

Suncor in particular looks [undervalued](#). The stock trades near \$41 per share at the time of writing. That compares to \$44 before the pandemic. WTI oil is currently above US\$100 per barrel and will likely stay near triple digits for the balance of 2022. In early 2020, WTI oil was about US\$60 per barrel. As a result, Suncor was either heavily overbought before the arrival of the COVID-19 lockdowns or the stock is cheap today.

Suncor's downstream businesses include refineries and retail locations. Fuel demand in 2022 will likely surpass 2019 levels, even with the large price hikes. Airlines are ramping up capacity for the second half of 2022, and commuters will have to start driving back to work by the millions in the coming months.

At the time of writing, Suncor's dividend provides a 4% yield. Investors who buy now get paid well to wait for the share price to move higher. A catalyst could be another large distribution increase. Management wants to get back into the good books with dividend investors, and there should be room for another significant distribution hike this year.

Barrick Gold

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) is another stock that ran afoul with investors and has struggled to shake off the bad reputation. The company made expensive acquisitions and ran up debt ahead of the last gold boom. That resulted in a major crash in the share price when gold prices fell from 2011 to 2015.

Barrick subsequently underwent a major restructuring that coincided with a rebound in the price of gold. Management sold non-core assets and used improved cash flows to wipe out US\$13 billion in debt. Today, the balance sheet is in great shape and Barrick Gold has the potential to generate significant free cash flow for investors.

This was evident in 2021 when Barrick Gold handed out a special return of capital that amounted to US\$0.42 per share on top of the dividend that had already tripled since September 2018.

Barrick Gold then increased its base dividend by 11% late last year and put a new dividend policy in place for 2022 and beyond that pays the fixed dividend plus a performance distribution that is linked to the net cash position on the balance sheet. With gold holding steady above US\$1,900 per ounce, dividend investors should see some big rewards again this year.

The shares trade near \$31 right now on the TSX with gold at US\$1,940 per ounce. Barrick Gold stock fetched close to \$40 in 2020 when gold last soared to its current level. All things considered, the stock appears to be undervalued.

The bottom line on top commodity stocks

Suncor and Barrick Gold are generating strong cash flow in the current environment and investors should see steady increases in the dividends this year. If you have some cash to put to work in top commodity stocks, these names deserve to be on your radar.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ABX (Barrick Mining)
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Author

aswalker

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