



1 Oil Stock That Pays Dividends AND Pays Off Debt!

Description

Many oil stocks pay dividends. Not all of them are actively taking steps to improve their dividend-paying ability. Most energy stocks are enjoying rising earnings this year due to high oil prices, but who knows how long surging oil prices will last? Oil companies that take steps to reduce costs will enjoy better dividend payouts in the future than their peers that do not. In this article, I will explore one TSX energy stock that's paying off debt and paying big dividends along the way.

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is a Canadian oil stock with a 3.63% [dividend yield](#). It has been doing extremely well this year, mainly because of the high oil prices that have materialized. This year, crude oil is up about 57%, and Suncor stock is up by a similar percentage. As an integrated energy company, Suncor makes more money when the price of oil rises. Refining and marketing crude oil both become more lucrative when the price of oil goes up, so it should come as no surprise that Suncor is doing well this year.

In its most recent quarter, Suncor beat analyst estimates on both revenue and earnings, with scorching-hot 259% earnings growth reported. Adjusted funds from operations increased about 100% on a per-share basis.

Suncor's dividend

Thanks to its strong earnings results, Suncor has been raising its dividend. Last year, it doubled its dividend payout. This year, it hiked the payout by a more modest 12%. As a result, we've now got Suncor with a relatively high 3.6% yield, despite its stock having soared into the stratosphere this year.

Normally, companies hike their dividends near the end of the fiscal year, but in Q1 2022, Suncor made a surprise extra hike to reflect the high oil prices that were observed in that period. Oil prices were even higher in Q2 than they were in Q1, so we may yet see more dividend hikes to come.

Reducing debt

Another thing Suncor is doing for shareholders this year is reducing costs. All energy companies are gaining from high oil prices this year, but not all of them are using the money to improve their financial picture. Suncor is. In its most recent quarter, Suncor reduced its debt by \$728 million. In 2021, it reduced its debt burden by a [whopping \\$3.7 billion](#). The more debt a company pays off, the lower the interest expense in future periods. That results in higher earnings and, ultimately, better dividend-paying ability.

Foolish takeaway

2022 has been a banner year for Suncor Energy. Earning \$2.7 billion in a single quarter, the company is thriving. And it's passing its solid results on to shareholders. By reducing debt and hiking dividends, Suncor is producing real results for people who own the stock. If oil prices remain high, then Suncor could become a real dividend-paying machine that enriches shareholders over the long term. We can't be sure that oil prices will rise, but it's a bet I'm willing to make.

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