



1 Undervalued Canadian Dividend Stock to Buy for TFSA Passive Income and Total Returns

Description

The [market pullback](#) this year is giving investors a chance to buy TSX [dividend stocks](#) in a number of sectors at cheap prices for portfolios focused passive income and long-term total returns.

Suncor

Suncor ([TSX:SU](#))([NYSE:SU](#)) looks [undervalued](#) at the current share price near \$39. The stock traded for \$53 in June before the big oil pullback. WTI oil dropped from the 2022 high above US\$120 to the current price of US\$90. This is still very profitable for Suncor, and the outlook for oil demand remains positive, even with the economic headwinds threatening to slow down consumption.

Oil market

Global oil producers are either unable or unwilling to boost output in the near term. The industry has cut investment by hundreds of billions of dollars in the past two years to preserve cash during the pandemic lockdowns. Maintaining output already requires significant investment. Getting new production online takes more time and is much more expensive.

In the case of conventional oil production, exploration and drilling has to be done and then the facilities and infrastructure need be put in place to get the oil out of the ground and to the transmission networks. Soaring labour and steel costs are a deterrent for producers to commit major funds to new developments right now. At the same time, most big oil producers are trying to meet aggressive emissions targets. Adding new output makes that job more difficult.

A global recession could slow down the pace of the recovery in oil demand, but tight supplies and the rebound in demand due to air travel, commuting, and the removal of lockdowns in China will likely keep oil prices elevated. In fact, a move back above US\$100 wouldn't be a surprise through next year.

Suncor earnings

Suncor generated record adjusted funds from operations of \$5.345 billion in the second quarter. Adjusted operating earnings increased to \$3.81 billion, or \$2.71 per share, compared to \$0.48 per share in the same quarter last year. Net earnings came in just under \$4.0 billion, up from \$868 million in Q2 2021. These are big numbers, and the market might not fully appreciate the impact on the balance sheet.

Suncor is using excess cash in 2022 to reduce debt and buy back up to 10% of the outstanding stock under the current share-repurchase program. As of August 2, Suncor said it had already purchased 6.1% of the December 31, 2021, outstanding float.

On the debt repayment, Suncor expects to hit its 2025 target of \$12 billion in net debt by the end of 2022. Once net debt drops to \$9 billion, Suncor intends to allocate all excess cash to shareholders. This would likely be a combination of ongoing buybacks and special dividends.

Suncor is undergoing a strategic review of the retail business. A sale of the group that includes roughly 1,500 Petro-Canada locations could unlock up to \$10 billion in value, according to some analysts. If that happens, investors could receive an extra bonus payout.

Is Suncor stock good to buy now?

Suncor's current base quarterly dividend of \$0.47 per share provides a solid 4.8% yield. The stock has underperformed its peers in the past two years, but that could change, as the company looks to alter its strategic direction.

If you have some cash to put to work, Suncor stock looks cheap right now and should be on your radar for a TFSA portfolio focused on passive income and total returns.

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