What You Need to Know About Suncor Energy’s Plan to Boost Profits

Description

Suncor Energy’s (TSX:SU)(NYSE:SU) fourth-quarter earnings improved by one penny per share over last year’s fourth quarter. This was despite an 18% increase in oil production from the company’s Canadian oil sands operations. A weak oil price environment in western Canada really impacted the company’s ability to grow its earnings. That, however, should change in the future.

North American oil prices remain volatile as surging production is more than the current infrastructure can handle. That’s causing companies like Suncor Energy to think outside the current system so that it can obtain better prices for the oil it produces. The company knows that if it can get its oil to coastal markets it will obtain better pricing. The only way Suncor Energy can improve its profits is to invest in integrating its assets to improve its market access.

Asset integration
To that end the company completed a rail offloading facility at its Montreal refinery last quarter. Because of that Suncor Energy was able to begin oil shipments from western Canada to that refinery, which was able to offset the higher global oil prices that the refiner has been forced to pay. Suncor Energy expects that it will be able to ship 30,000 barrels of oil per day to the refinery by rail in the first quarter of 2014. That should earn Suncor higher profit margins.

As part of Suncor’s 2014 capital budget, it will invest to grow the heavy oil refining capacity at its Montreal refinery. This will enable the company to increase its heavy oil shipments to the refinery in the future. Once complete, that added capacity will allow Suncor to capture even higher profits from refining its own oil from western Canada.

Market access
The second step of the company's profit strategy is to increase its market access. That step began just a few weeks ago as Suncor started shipping oil on **TransCanada**'s (TSX:TRP)(NYSE:TRP) Keystone South pipeline. While TransCanada's controversial Keystone XL pipeline still hasn't been approved,the southern portion of that project just went into service. It's currently shipping 50,000 barrels of oil perday for Suncor to the U.S. Gulf Coast. Suncor sees this project adding to the profitability of its Firebagoil sands project.

Overall, Suncor has been aggressive in its pursuit of securing takeaway capacity for its oil. Late last year the company signed on with **Enbridge** (TSX:ENB)(NYSE:ENB) to secure takeaway capacity for its newest oil sands project. As part of the deal, Enbridge is building the Wood Buffalo Extension Pipeline. That project will not only ensure that oil from the upcoming Fort Hill project can be delivered to markets, but it also enables Suncor to move oil from its other projects in the region.

Foolish bottom line
Suncor Energy isn't simply going to sit back and accept the poor price of Canadian oil. Instead, the company is using its integrated business model to enhance earnings in its refining segment. That's in addition to its focus on securing as much takeaway capacity as possible. Because of this, Suncor Energy has the ability to grow its earnings in ways that its smaller peers cannot rival.

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