Why You Need Suncor in Your Portfolio

Description

With crude prices remaining well above $90 per barrel and the price differential between Canadian heavy crude and West Texas Intermediate continuing to narrow, the outlook appears particularly bright for Canada's heavy oil producers. One company that standards out is integrated energy heavyweight **Suncor Energy** (TSX: SU)(NYSE: SU).

Not only did it report solid 2013 results, but with a diverse upstream production base coupled with downstream assets, Suncor is well positioned to take advantage of the positive operating environment and reward investors.

2013 results were impressive
Suncor's full-year 2013 results were impressive, with crude production jumping 24% in comparison to 2012. This was driven by a 33% increase in oil sands production for the same period and offset by an almost 11% decline in conventional oil production. Even more impressively, Suncor's 2013 net earnings shot up a healthy 42% compared to 2012, while return on capital employed was an impressive 11.5% for 2013 and was 4.3% higher than 2012's 7.2%.

The company's commitment to returning cash to shareholders continued throughout the year, with $1.1 billion paid out in dividends in 2013 along with management purchasing 49.5 million Suncor shares valued at $1.7 billion. This indicates the company is committed to delivering on its promise to unlock the value of its assets and reward shareholders.

Solid future outlook

For 2014, management estimates crude production will remain flat in comparison to 2013 at between 525,000 and 570,000 barrels daily. Oil sands production is expected to again increase by between 2% and 10%, which will be offset by a further decrease in conventional crude production. This underscores the company's commitment to further developing its oil sands assets as development costs fall and the price differential between Canadian heavy crude and West Texas Intermediate narrows.

Suncor has also allocated $7.8 billion to capital expenditure for 2014, which is a 22% increase on capex for 2013 of $6.4 billion. The majority of this capex, being 57% of the total has been allocated to oil sands emphasizing Suncor's goal of developing its oil sands assets. Conventional oil exploration and production will receive 25% and the remaining capex has been allocated to downstream operations.

The key projects slated for development during 2014 will be the Fort Hills joint venture as well as further development of the MacKay River expansion project and debottleneck project. The Mackay River expansion project is expected to produce first oil in 2017 with initial crude production of 20,000 barrels daily. The debottleneck work at the site is expected to be completed during 2014 and add an additional 38,000 barrels of crude production daily by 2015.

The majority of the capex allocated to exploration and production is focused on completing the North Sea Golden Eagle field development plan. When this project is complete it will add 70,000 barrels of gross oil production initial oil production expected to commence in late 2014 or early 2015.

The successful completion of these projects bodes well for Suncor to grow production over the foreseeable future and boost revenue. When coupled with a more intelligent use of capital — highlighted by management's commitment to boost the return on capital employed — and cost reductions, Suncor will continue to deliver significant value for investors.

Suncor remains committed to returning cash to investors
A particularly important aspect for investors is Suncor's commitment to returning cash to shareholders. In February 2014, the board approved yet another dividend increase, boosting the quarterly dividend by 15% to $0.23 per share.

This gives Suncor's dividend a respectable yield of 2.5% and since inception (1992), a solid compound annual growth rate of 13%, making Suncor what is known as a dividend champion and I believe a core holding in any income focused stock portfolio.

Suncor's board also committed to repurchasing a further $1 billion of shares in 2014, which will not only add a floor to the company's share price but support further upward momentum. This action further highlights the company's commitment to unlocking value and rewarding patient investors.

Foolish bottom line
Clearly Suncor is well positioned to continue taking advantage of higher oil prices and the narrowing differential between Canadian heavy crude and West Texas Intermediate. Growing heavy crude production and higher revenue coupled with greater cost control and more effective employment of capital leaves Suncor well positioned to continue unlocking value and rewarding investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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Date
2025/09/19
Date Created
2014/03/24
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