What to Watch When Suncor Reports Earnings Next Week

Description

Suncor (TSX: SU)(NYSE: SU) is set to publish its quarterly earnings on Monday. Over the past few years the company has spent tens of billions of dollars building out its oil sand operations. The question is whether the company will be able to earn a satisfactory return on those investments for shareholders.

Let's take an early look at what's been happening at the company over the last six months and what we're likely to see in the upcoming report.

Stats on Suncor

Analyst EPS Estimate	$0.94
Year Ago EPS	$0.90
Revenue Estimate	$11.11B
Change From Year Ago Revenue	10.90%
Earnings Beats Last Four Quarters	2

Source: Yahoo! Finance

Can Suncor deliver for shareholders this quarter?

Alberta's oil sands have been one of the few bright patches for resource investors in 2014. Thanks to an unusually cold winter and easing pipeline congestion out of Alberta, the price for oil sands bitumen is on the rise. Over the past year, the discount for Canadian Western Select has been cut by more than half to less than $20 per barrel.

As any beginner equity analyst could tell you, higher oil prices will pad Suncor's bottom-line. Over the last three months Bay Street has increased its consensus earnings per share estimate for the upcoming quarter by $0.11. And for the full-year, analysts are looking for the company to earn $3.57 per share in fiscal 2014, up by 5% over the past 90 days.

The only thing that could upset Suncor's bull thesis next week is what lurks further down the income statement. Natural gas is an unavoidable expense in much of the company's bitumen mining facilities and prices has almost doubled over the last six months. Rival companies like **Imperial Oil** and **Canadian Natural Resources** have extensive dry gas operations which serve as a natural hedge to rising rates. But Suncor's limited gas production is hardly enough to offset increasing costs in its oil sands operations.

Beyond this, it should be a relatively boring quarter for the company. After years of building out oil sands operations, Suncor is firmly in execution mode. It's a time for shareholders to see a return on their investment.

Chief Executive Steve Williams will spend the bulk of his efforts trying to wring efficiencies out of existing operations by cutting costs and devising ways to eke out more production from existing assets. Over the next three to four years, Mr. Williams has also promised to squeeze out an additional 300,000 to 400,000 barrels per day of production from de-bottle-necking initiatives. Shareholders want to watch quarter by quarter to see if he can deliver.

As he does so, Suncor will start to return more of their free cash flow to shareholders in the form of dividends and share buybacks. We started to see that last quarter when the company increased its payout by 15% and reset its buyback program to $1 billion.

Foolish bottom line

This is not the exciting wheeling and dealing type stuff that Canada's oil industry is famous for. Don't expect another round of big mergers and acquisitions by Stetson-wearing oilmen. But it's what investors demand in an era of surging development costs, constrained pipeline capacity, and souring public opinion.

CATEGORY

1. Investing

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

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