



3 Keys to Suncor's Fantastic Quarter

Description

On Tuesday morning, **Suncor** ([TSX: SU](#))([NYSE: SU](#)) reported earnings for the first quarter of 2014. It was a fantastic quarter, with record operating earnings (\$1.8 billion) and cash flow (\$2.9 billion). On an adjusted basis, earnings per share came in at \$1.22, easily beating the average analyst estimate of 93 cents.

So what caused Suncor to have such a great quarter? Below are the three key factors.

1. Oil sands production

After selling off its natural gas assets over the past year, Suncor's energy production was nearly 100% comprised of oil, compared to 92% in the first quarter of 2013. And even though production overall was down (due to shut-in operations in Libya), the company's oil sands operations performed very well.

Production of synthetic crude oil (SCO) in the oil sands reached a record of 312,200 barrels per day (bbls/d), up 21% year over year. The key was "improved upgrader reliability", which resulted in nearly 90% utilization. Bitumen production was also up due to progress at Firebag.

2. Pricing

Pricing has been a big positive for all Canadian energy producers in 2014, and Suncor's results perfectly demonstrate that. The West Texas Intermediate (WTI) oil price in Oklahoma was up \$4 compared to the first quarter of 2013, but more importantly the transportation bottlenecks have started to ease. As a result, heavy oil prices in Alberta increased from \$62.40 to \$75.55 year over year (all figures in USD).

If the Keystone or Northern Gateway pipelines get approved, these bottlenecks could ease further. But in the meantime, it is promising for the energy producers to see these kinds of numbers so soon.

3. Currency

Last year, the Canadian dollar averaged 99 cents USD during the first quarter. Since then, the United

States has been much more committed to easing monetary stimulus than Canada, causing the USD to rise. And in the first quarter of this year, the CAD averaged only 90 cents USD.

This has provided a big boost to exporting energy companies like Suncor. Investors are without doubt hoping that the CAD falls even further.

Foolish bottom line

Suncor is the first of the industry heavyweights to report earnings, and has certainly set a high bar. Energy investors are hoping that other companies follow Suncor's lead, something that shouldn't be too difficult given the strong pricing and exchange rate environment. But time will tell.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date

2025/07/06

Date Created

2014/04/29

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