



1 Reason to Buy This Oil Sands Champion

Description

At the beginning of my financial career I had the opportunity to be mentored by an old-time stock broker. I'll never forget what he told me about investing.

Try to picture a man like Lou Mannheim from the movie *Wall Street*, a grizzled industry veteran who ranted daily about Trudeau's National Energy Board and remembers Nixon taking the U.S. off the gold standard.

I would sometimes pitch him investment ideas. One day after droning on about one of my latest finds, he told me this: "Look, Bob. If you can't explain your idea in 30 seconds, you don't know what you're talking about."

He was right. That's not to say that the details don't matter. But if you can't explain your idea concisely, you don't really understand it.

With that said, if I gave just one reason to buy **Suncor Energy** ([TSX: SU](#))([NYSE: SU](#)), it would be this: the stock is a cash machine.

Canada's *next* dividend aristocrat

Suncor CEO Steve Williams has only one goal in mind: to return as much cash to shareholders as he possibly can.

Since taking helm of the company in 2011, Williams has promised to spend the bulk of his efforts wringing cash out of existing operations. Rather than embarking on exciting expansion projects, Suncor has been retrenching. Over the past three years the company has sold off conventional natural gas assets, slashed capital expenditures, and halted construction of its planned Voyageur oil sands upgrade.

This is not the exciting wheeling and dealing the oil patch is known for — big deals backed by Stetson-wearing oil men. However, it's a big improvement from the old days when the company often blew its capital budget as the cost of materials and labour ballooned.

The more conservative Williams has backed away from an ambitious growth target to nearly double oil production to a million barrels per day by 2020. The company is no longer chasing growth for the sake of growth. Instead, every dollar reinvested back into the business must meet a high return threshold or be returned to shareholders.

This policy will free up an enormous amount of cash for shareholders. Since 2011, Suncor has doubled the size of its dividend and bought back over 10% of outstanding shares. This is a mammoth amount of cash that shows just how dedicated management is to lining investors' pockets.

Last February the company boosted its quarterly dividend by 15% and reset its share buyback program up to \$1 billion. And with oil sands production growing from the firm's MacKay River and Firebag projects, shareholders can count on that cash flow stream to grow even more over the coming years.

Of course, the Suncor bull thesis isn't bullet-proof. Without the approval of **TransCanada's** ([TSX: TRP](#))([NYSE: TRP](#)) Keystone XL pipeline, the discount for oil sands bitumen will grow. Cost inflation for labour and materials always threatens to rise further.

However, Suncor has upgraded most of its oil sands production and has extensive refining operations. The company is also finding new ways around congested pipelines with methods like crude-by-rail and tanker shipping. These all serve as a hedge against lower bitumen prices.

The industry also seems to have learned from its past mistakes. Rather than launching dozens of mega-projects all at once, companies like **Imperial Oil** ([TSX: IMO](#))([NYSEMKT: IMO](#)) and **Cenovus** ([TSX: CVE](#))([NYSE: CVE](#)) are rolling out new ventures in stages. This should help reduce cost overruns in the future.

But the bottom line is this: Suncor is going to return enormous amounts of cash to shareholders over the next few years. It's apparent that Mr. Williams has chosen to skip ego-boosting expansion projects in favour of maximizing shareholder returns. That's the hallmark of a wonderful investment.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:TRP (TC Energy Corporation)

Category

1. Investing

Date

2025/07/05

Date Created

2014/06/03

Author

rbailleul

default watermark

default watermark