4 Reasons to Make Suncor Your Top Pick in the Oil Patch

Description

Suncor Energy (TSX: SU)(NYSE: SU) is enjoying record earnings, and I believe the trend will continue. Investors looking for the best stock to buy in Canada's oil patch should make Canada's largest oil company their top choice.

Last week, I wrote about the macro reasons for strength in Canada's oil producers.

Here is why I think Suncor is best positioned to pump out higher profits in the next year.

1. Realized oil price

Suncor has been extremely successful at getting the best price possible for its oil by finding ways to get around pipeline bottlenecks in western Canada.

It has accomplished this by doing three things: taking advantage of the boom in crude-by-rail shipments, utilizing **TransCanada's** (TSX: TRP)(NYSE: TRP) new pipeline running from storage facilities in Oklahoma to the Gulf coast, and moving oil by boat from the Gulf to its operations in Montreal.

In fact, in the first quarter of 2014, Suncor realized "global-based pricing" (the highest price possible) on 96% of its oil. This was up from 88% for the same period in 2013.

Global oil prices remained high throughout Q2 and Suncor continues to increase its shipments across various distribution channels.

2. Low-cost crude for refining

Suncor saves $10 per barrel by sending crude from Alberta to its refinery in Montreal via rail transport instead of importing more expensive oil. In Q1, 2014 Suncor shipped 20,000 barrels per day to Montreal by rail. Its Q2 target was 35,000, and the company plans to expand that even further.

Enbridge (TSX: ENB)(NYSE: ENB) is working on a reversal of its Line 9 pipeline, which will give

Suncor even more opportunity to reduce costs at the Montreal refinery. Shipping crude to Montreal along Line 9 should begin in 2015.

Profit margins at the Montreal refinery will continue to improve, moving forward as the company reduces input costs. The plant processes 137,000 barrels per day. Scheduled shutdowns for maintenance at the Montreal refinery will have an impact on profits in Q2 and Q3, but these are built into Suncor's guidance.

3. Retail profits

Suncor operates more than 1,500 Petro-Canada retail locations, which continue to be very profitable. The integrated structure of the company allows it to maximize returns on its end products, such as gasoline, diesel fuel, and lubricants. Car wash facilities and in-store restaurants such as A&W also contribute to the bottom line.

4. Production and reserves

Suncor continues to produce increasing volumes of oil. In Q1, the oil sands upgraders were running at 90% utilization and produced 389,300 barrels per day. This was up from 357,800 bbls/d during Q1 in the previous year.

Suncor has 6.9 billion barrels of reserves and a staggering 23.5 billion barrels of contingent resources. This means it is well positioned to reward long-term investors for decades to come.

The bottom line

Suncor's vertically integrated business model means it gets revenue from production, refining, and retailing oil products. This not only allows the company to leverage operational synergies but it also provides a more balanced source of revenue than other oil companies.

Record profits driven by higher refining margins and global oil prices should continue to fuel increased dividends and even larger share buybacks.

Suncor's shares have recently pulled back, and it's my opinion that investors looking to buy should consider taking a position in the stock before its Q2 earnings report is released.

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