



What to Watch When Suncor Reports Earnings Next Week

Description

Suncor Energy ([TSX: SU](#))([NYSE: SU](#)) is set to publish its quarterly earnings report next Thursday. In recent months, shares of this oil sands giant have rocketed higher, up 22% for the year to date. Now investors want to see if the company's performance can justify that premium valuation.

Let's take an early look at what has been happening at Suncor over the past few months and what we're likely to see in the upcoming report.

Stats on Suncor

Analysts' EPS Estimate	\$0.97
Year Ago EPS	\$0.62
Revenue Estimate	\$10.92B
Change From Year-Ago Revenue	12.40%
Earnings Beats in Last Four Quarters 2	

Source: Yahoo! Finance

Can Suncor deliver for shareholders this quarter?

Suncor's report is the first in a series of what are expected to be strong energy sector earnings reports in the weeks ahead. Canada's oil patch has been buoyed by higher energy prices and a lower Canadian dollar. The industry is also starting to find its way around congested pipelines by experimenting with innovative transit options.

Needless to say, this rosy backdrop is good for Suncor's bottom line. Over the last three months, analysts have increased their consensus earnings estimate for the upcoming quarter by a full dime to \$0.97 per share. For the full year, the street has added \$0.41 per share to its average estimate.

For investors, the main focus will be on the company's ability to actually ship its oil production to market. Last quarter, Suncor showed that its pipelines, rail, and tanker shipping strategy is working.

The company has been able to capture global prices equal to the international benchmark of Brent crude on almost 96% of its production, compared to just 88% during 2013.

Beyond this, Suncor's management team has been mostly focused on trimming costs and wringing more bitumen out of existing operations. Chief Executive Steve Williams has promised to squeeze out an additional 300,000 to 400,000 barrels per day of production over the next three years from these de-bottlenecking initiatives. Shareholders are watching month by month to see if he can deliver.

The only ruffle in the company's results could be further down the income statement. Last quarter, cash costs for oil sands operations rose \$0.80 per barrel year over year to \$35.60 per barrel, mainly on higher natural gas expenses. Unlike other oil patch giants like **Canadian Natural Resources** or **Imperial Oil**, Suncor doesn't have extensive natural gas operations to offset higher prices. While higher expenses don't spell doomsday for producers, investors are always worried about cost inflation.

The bottom line is that shareholders should expect another boring quarter out of Suncor. The question is whether management can execute on operations and secure the highest price for its bitumen downstream. This isn't the exciting stuff the oil sands are known for, but it has been a profitable recipe for investors.

CATEGORY

1. Investing

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