



3 Things Suncor Energy Inc.'s Management Wants You to Know

Description

Suncor Energy Inc. ([TSX: SU](#))([NYSE: SU](#)) holds a conference call each quarter for analysts and investors to discuss its results, as well as what to expect in the future.

This past call had three important insights from the company's management that really stood out. Let's take a closer look at what management wanted investors to know about the company.

Every barrel of oil is wildly profitable

A recent study by an environmental advocacy group suggested that many projects in Canada's oil sands were [nothing but big losers](#). The study said that several projects needed oil prices over \$150 per barrel just to make money. However, most producers would laugh at this notion, including Suncor Energy.

In fact, the company's management team wants its investors to know that its basket oil sands products make a lot of money for the company and its investors. CEO Steve Williams noted on the conference call that the company, "once again produced over \$50 of cash flow and over \$13 of free cash flow for every barrel of oil production across the enterprise."

The company's cash flow this year has actually been above its target thanks to these strong margins.

Aggressively returning cash to shareholders

Because its cash flow is so strong and above expectations, the company is in a prime position to reward its investors. Steve Reynish, who was the company's acting CFO until Alister Cowan recently came aboard, had this to say about the company's cash flow:

"After factoring in \$113 million for capitalized interest that left us with free cash flow for the quarter of \$643 million and trailing 12 months free cash flow of \$3.6 billion, a 66% year-over-year increase. This continues the trend of strong reliable and growing free cash flow and it

puts us in the position of being able to aggressively return cash to our shareholders.

It is for this reason that we recommended an out of cycle dividend increase to our board of directors. We felt that with a sharp increase in free cash flow and the cash balance above our target, there was ample reason to make a move before our scheduled year-end dividend review.”

Because every barrel of oil is so profitable, the company is in the position to aggressively give cash back to its investors. In fact, this growth has been so strong that over the past five years the company’s dividend has grown by a compound annual rate of 40%.

Growth is focused on the bottom line

Suncor Energy has several growth projects in the works that will push its oil production higher over the next few years. However, these projects are focused on growing the bottom line above all else. Mr. Williams was emphatic about this when discussing the company’s growth on the call. He said that, “you’ve heard me repeatedly say, growth for growth’s sake is not our goal. We will rigorously manage our capital spending program to ensure we deliver strong returns for shareholders.”

This is why the company is avoiding [high-cost growth projects like the Joslyn oil sands project](#) as the economics just wouldn’t create value. A focus on the bottom line is why the company has cut a billion dollars from its capital spending plan as it would rather return its excess cash to investors as opposed to burn it on projects that would create minimal value at best.

Investor takeaway

Suncor Energy wants its investors to know that the company is highly profitable and that those profits are being aggressively returned to investors. That trend should continue as the company refuses to grow for the sake of growth, but instead will invest in projects that drive meaningful growth to its bottom line.

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