# 1 Big Reason to Avoid Suncor Energy Inc., and 1 Stock to Buy Instead

## Description

After a wonderful run for energy companies – and their share prices – it has been a summer to forget. After peaking at $115 per barrel in June, the North Sea Brent oil price (the best proxy for international supply and demand) fell to roughly $95 last week. Increased production from the United States, as well as sluggish demand from Europe and China, is to blame.

This has had an effect on share prices. For example, shares of **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) are down nearly 15% from their peak in June.

Some would say this has created an opportunity to buy discounted shares. But that's not necessarily true. Below we take a look at one big reason – in fact the only reason you need – to avoid shares of Suncor. Then we'll take a look at an energy company you'll want to buy instead.

**1 big reason to avoid Suncor**



Here's a good way to evaluate how promising a company's future is: look at where it's spending its money. Is the company buying back shares? Is it raising its dividend? Is it making acquisitions? Is it investing in the right places?

In Suncor's case, there are reasons to be concerned. Specifically, the company's Fort Hills oil sands project is probably one that shouldn't be built. But the company is forging ahead anyways.

To illustrate, Fort Hills comes with a massive $13.5 billion price tag, and would not start producing oil until the end of 2017 (and that's assuming no serious cost overruns or delays). Even once construction is complete, Fort Hills would only produce 180,000 barrels per day. That equates to a $75,000 investment per flowing barrel, one of the highest costs in the industry.

In fact Total E&P Canada has just canceled Joslyn, a project with similar economics to Fort Hills. So what does it say that Suncor has chosen to proceed with this project? Well, there are two possibilities. One is that the company is spending money in the wrong places. But that is unlikely – management is generally well-respected, and CEO Steve Williams is known to be more prudent than previous CEO Rick George.

More likely, Suncor has limited options for growing production. This means the company will have trouble compounding shareholder value at high rates. Especially if the project doesn't go as smoothly as planned.

**1 stock to buy instead: Peyto**

Many people are unfamiliar with **Peyto Exploration & Development Corp** (TSX: PEY). But it is likely Canada's best-in-class natural gas producer.

Peyto has one big advantage over Suncor: economics. While Suncor is spending money on projects like Fort Hills, Peyto has a proven track record of achieving incredible returns while growing natural gas production. In fact, Peyto's shares have compounded by 90% per year for the last 15 years, an unbelievable track record.

And Peyto continues to find more ways to unlock gas reserves very efficiently, generating high returns along the way. So while shareholders shouldn't expect annual returns to be 90% going forward, they should remain optimistic about the company's prospects. Meanwhile, shareholders of Suncor should be more worried.

**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

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2. TSX:PEY (Peyto Exploration & Development Corp)
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