Why Wall Street Loves Suncor Energy Inc.

Description

Suncor Energy Inc. (TSX: SU)(NYSE: SU) recently joined its integrated Canadian counterparts after receiving a buy rating from Citi Research, which is now bullish on four Canadian integrated oil companies. Citi Research now sees Suncor Energy, **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE), **Husky Energy Inc.** (TSX: HSE) and **Imperial Oil Ltd.** (TSX: IMO)(NYSEMKT: IMO) hitting a major free cash flow inflection point within the next six to 18 months. That's well ahead of the 24-36 months before Big Oil stocks like **ExxonMobil** hit its own key free cash flow inflection point.

What's so great about Suncor Energy?

The Citi analyst pointed out that Suncor Energy has been earning stronger returns on its oil sands assets over the past 18-24 months. This is partially due to the fact that the company has been cutting costs while at the same time producing more oil. That being said, Suncor Energy isn't done streamlining its business just yet as it continues to cut spending in order to increase its free cash flow.

One big place where Suncor Energy is cutting is in capital expenditures. It has already slashed about $1 billion from its 2014 capex plan and the company should cut another $500 million to $1 billion annually through the end of the decade. As it does, this will push free cash flow higher by 20%-25%. This will give the company even more cash flow to return to investors, even as it has more than doubled its dividend in the past two years.

A cash flow gusher in Canadian oil stocks

By cutting capex spending that really will only marginally boost returns, Suncor Energy's production growth will still be strong, but that production will yield better free cash flow. We see the same thing at its peers where Husky Energy, for example, expects production to grow by 5%-8% per year through 2017 while cash flow from operations will grow a bit better at 6%-8% per year.

Overall, even with the belt tightening, Suncor Energy, Cenovus Energy, Husky Energy, and Imperial Oil are all expected to grow production by an average of 7% from 2015 through the end of the decade. However, that growth is expected to generate a free cash flow yield of around 8%. That's substantially higher than global oil majors that are only expected to have a free cash flow yield of around 5.6%. This will give Canadian oil stocks a much stronger ability to return cash to investors through higher dividends and stock buybacks.

Investor takeaway

Suncor Energy and many of its Canadian peers are more focused than ever at delivering growth that impacts the bottom line. This change in capital allocation is expected to free up a lot of extra cash, which should find its way back to investors in the form of larger cash dividends. Those bigger dividend payments will come a lot faster at Canadian oil companies, which is why Wall Street just loves these stocks right now.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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