3 Big Reasons to Buy Suncor Energy Inc.

Description

The outlook for Canada's energy companies looks much worse than it did three months ago. Pipeline projects remain stalled. Costs have continued to go up. And, most importantly, prices for crude oil have dropped significantly.

But that doesn't mean you should shun Canada's energy sector altogether. On that note, below are three reasons why you should buy the country's largest energy company, **Suncor Energy Inc.** (TSX: SU)(NYSE: SU).

1. Europe

Sluggish European demand is one of the reasons why global energy prices have slumped. But there is finally some good news from the continent, at least from an energy company's perspective. New reports suggest that Europe will kill a rule that labels Canada's oil sands as "dirty." The rule is part of Europe's aggressive efforts at lowering greenhouse gas emissions.

This comes at a time when some Russian sanctions are targeting the country's oil industry. And although these sanctions have yet to impact Russian oil production, they easily could in future years. So with no end in sight to the crisis in Ukraine, Europe understandably will be looking for more sources of oil supply (Russia is currently the largest exporter of oil to Europe). So there may be more good news coming out of the continent in the months to come.

2. Improved discipline

It's true that rising costs have dented profitability for Suncor and its peers. But there is good news on this front as well. Suncor has dialed back its most ambitious expansion plans, and is now focused much more on operational efficiency and shareholder return.

To be more specific, Suncor has dialed back capital spending plans for 2014 by $1 billion. This comes after scrapping the $11.6 billion Voyageur upgrader project with Total SA last year. Instead, the company is focusing on smaller, more incremental gains. In fact, Suncor hopes to grow existing production by 100,000 barrels per day just from improvements to existing operations.

It's not just Suncor that's putting on the brakes. Other companies are, too. For example, Total has also scrapped its $11 billion Joslyn oil sands project (which again features Suncor as a partner). Such moves may not bring costs way down in Alberta, but should at least contain them from rising further. And that is good news for everyone in the industry, including Suncor.

3. Price

Finally, the drop in energy prices around the world has taken a toll on Suncor's stock. At under $40, the company's shares have fallen by 17% since its 52-week high in June. Interestingly, the stock is just as cheap as it was in the beginning of 2006.

Furthermore, Suncor has raised its dividend to $0.28 per share per quarter, resulting in a yield close to 3% at current market prices. So now may be a great opportunity to pick up some Suncor shares and realize a nice dividend while you're at it.

There are other stocks in the energy sector worth buying, one of which is The Motley Fool's top stock pick for 2014. Be sure to read the free report below to find out more.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/07/23
Date Created
2014/10/07
Author
bensinclair