Why Suncor Energy Inc. Is the Best Play on Canadian Energy

Description

The Canadian oil sands are currently Canada's major economic engine, with a projected annual growth rate of 175,000 barrels of oil per day until 2030 at minimum. Any balanced Canadian portfolio should have some exposure to this incredible growth.

The question is how best to gain exposure? **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) offers some major competitive advantages over its peers, and these advantages can allow Suncor shareholders to capitalize on the incredible growth available in the oil sands, while minimizing risk.

Suncor's integrated strategy makes it a top performer

Suncor is currently generating nearly $10 billion in annual cash flow on a consistent basis. This strong cash position is enhanced by the fact that approximately $3 billion of that is free cash flow. Suncor is currently generating more free cash flow then any of its Canadian competitors, the vast majority of which generate none. In fact, Suncor currently generates more free cash flow then all its Canadian competition combined.

Why is this? Suncor has a powerful integrated strategy, with operations in all stages of the oil and gas industry. Suncor is involved with resource extraction, upgrading of extracted products to crude (in the case of oil sands bitumen), transportation, refining, and retail through its Petro Canada gas station chain.

This integration has allowed Suncor to capture higher Brent pricing on nearly 100% of its production in Q2 2014. This is a significant advantage, as many Canadian competitors with less integration are only able to capture West Texas Intermediate (WTI) pricing, and in often cases, production is sold at a further discount to WTI prices due to market access issues facing Canadian producers.

Integration allows Suncor to capture these premium prices due to its ability to upgrade its bitumen into higher value light synthetic crudes. It is then able to integrate upgrading facilities into its refining operations, which allows Suncor to process its crude into even more valuable refined products like gasoline. This integration allows Suncor to take the approximately 73% of its production that would originally capture WTI pricing, and through integration with refining operations, capture Brent pricing.

This strategy also protects Suncor from fluctuating economic cycles, as a deeply integrated business structure is also a diverse business structure. Suncor's diverse operations allows it to capture earnings wherever they appear in the value chain, and reduce volatility in response to challenging economic conditions.

Suncor also has excellent market access compared to its peers

Canadian energy producers are currently facing major market access issues, due to a huge boom in U.S and Canadian oil production, combined with increasingly bottlenecked pipeline capacity. The vast majority of Canadian production is exported to the U.S., where it lands in the deeply oversupplied inland market, putting downward pressure on the prices Canadian producers obtain.

Fortunately, Suncor does not suffer the market access issues its peers do, thanks again to its integrated strategy. Suncor has extensive mid-stream infrastructure including pipeline access and storage capacity across North America, including access to the lucrative U.S Gulf Coast through **TransCanada Corporation's** Gulf Coast Pipeline. Suncor also has access to Canadian and U.S coastal markets, where it is able to capture global prices.

For production unable to capture global Brent pricing, Suncor is able to utilize rail or ship to transport production to its Montreal refinery, where the discounted crudes can be refined into higher value products which can then be sold off the higher world prices. The expenses associated with rail and ship transport are justified for Suncor due to the large price differential between WTI and Brent Crude.

Suncor's integrated strategy, and strong market access give it the enormous advantage of being able to obtain higher prices per barrel of crude produced, while having the flexibility to utilize its diversified and integrated operations to reduce volatility during periods of soft crude prices.

Oil prices are currently plunging right now, and Suncor shares have reflected this. Investors should use this as an opportunity to buy shares in this premier Canadian energy company, and take comfort in the fact that Suncor's sheer size and integration make it a safe place to weather the storm, and ultimately profit.

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2. Investing

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