What Are Investors to Do With Suncor Energy Inc.?

Description

At a time of night when many people are settling in for a long autumn's nap, **Suncor Energy Inc**. (TSX: SU)(NYSE: SU) released its Q3 2014 report. Maybe it hoped that the 10:00 pm EST release would be missed by many investors' news tickers and feeds, and perhaps for good reason.

Yesterday, I looked at **Husky Energy Inc.** (TSX: HSE) and how its diversified portfolio will carry it through the lower crude prices we are seeing today. Unfortunately, for Suncor the same cannot be said, as earlier this year the company made the decision to disinvest in its east coast natural gas properties in favor of an all crude production quota. This makes Suncor all the more sensitive to today's lower WTI and Brent prices.

The *late* late report

Before we get into the hard numbers, we should acknowledge that the average price of WTI Crude was $97.20 during the quarter, down from $105.85 in Q3 2013, and for added consideration WTI Crude closed Wednesday at $81.94.

Total revenues were up in the quarter totalling $10.3 billion up from $9.7 billion a year prior, although this total fell $300 million below analysts' estimates. The boost in revenues were due to increased crude production in the oil sands during the quarter, which worked out to 441,100 boe/day up from 423,600 boe/day in Q3 2013.

However, total production fell in the quarter to 519,300 boe/day from 595,000 boe/day, thanks to its disinvestment in natural gas production in eastern Canada. The lack of natural gas makes up a significant loss of production in Suncor's Canadian operations outside of Alberta as production fell from 107,900 boe/day last year to 49,900 in this quarter.

Operating earnings, though, fell in the quarter to $1.3 billion ($0.89 per share) from $1.42 billion ($0.95 per share) and cash flow from operations fell to $2.28 billion from $2.52 billion.

The once-bountiful bottom line

The biggest blow to the company after the price of crude is its net income during the quarter, which fell to $919 million ($0.63 per share) from $1.69 billion ($1.13 per share) in Q3 2013, a 46% drop! This comes on the heels of its Q2 2014 report, which saw net income fall to $211 million from $680 million during the same period last year.

Net income was battered all over the place during the quarter, with a gain of $61 million hitting the books from the sale of its Wilson Creek assets, but was offset by a $54 million back tax bill from the oil sands and $394 million in unrealized after-tax unrealized foreign exchange losses.

A bright spot in the quarter was oil sands revenues, which increased to $3.95 billion from $3.90 billion, due in part to lower operating costs that worked out to $31.10 per barrel, down from $32.60 per barrel a trend that is not expected to continue with current pricing and the boom in U.S. shale oil flooding the market.

It doesn’t appear that Suncor is in a position to benefit investors for the foreseeable future with its decision to be completely dependent on crude coming at such an unfortunate moment.

Even its dividend program is lagging behind the competition, only offering $1.12 annually with a yield of 2.8%, a program that cost the company $409 million in the quarter. Yet there remain some solid alternatives for investors looking to embrace alternate energy strategies until crude regains its price. Below are two of them.

CATEGORY

1. Energy Stocks
2. Investing

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