Has Suncor Energy Inc. Bottomed?

Description

Suncor Energy Inc. (TSX: SU)(NYSE: SU) traded at $46 per share back in June. On Monday, it hit the $35 mark. The long slide for oil producers has been an ugly one, but Suncor's drop is modest compared to many of its peers and the stock looks like it might be starting to regain some ground.

Let's take a look at the company's situation to see if long-term investors have an opportunity right now to pick up the stock at a bargain price.

Revenue diversification

Suncor is Canada's largest integrated oil company. The diversification of its assets provides an earnings hedge against volatile oil prices, and this model is the big reason the shares are holding up well compared to other oil companies.

On the production side, Suncor has a resource base that is the envy of the industry. With almost 7 billion barrels of oil reserves and another 23 billion in contingent resources, Suncor has the capability to produce crude for several decades, and production levels are improving every quarter. In Q3 2014, Suncor hit record oil output of 412,000 barrels per day at its oil sands facilities.

Higher production will help offset lower prices going into 2015. The company is also driving down its costs. Cash operating costs per barrel for the third quarter came in at $31.10. If oil prices settle around $60 next year, Suncor will still be profitable.

Suncor's refining facilities will also help support earnings in 2015. Three of the four units just received an overhaul and operating margins at the refineries should hold up well, as feedstock costs will be much lower in the coming quarters.

Suncor continues to invest in its midstream operations. The new rail offloading facility in Quebec is an important step in the company's plan to send more of its production to higher priced markets.

The 1,500 Petro-Canada retail locations also provide a consistent revenue buffer when the other divisions hit a rough patch.

Efficient marketing

Suncor does an excellent job of getting the best price possible for its crude oil. The company's size and efficient operations enable it to move crude via pipelines, rail cars, and even ships to ensure it gets top market prices. For example, Suncor sent a tanker full of crude to Europe in September.

Value for money

Suncor is trading at about 11.3 times forward earnings and 1.3 times book value. The diversified nature of Suncor's income stream makes it more valuable than its one-trick-pony peers that trade at similar or higher levels.

Dividends and share buybacks

Suncor pays a dividend of $1.12 per share that yields about 3%. The payout ratio is 48% so investors don't have to worry about a cut, and shareholders could see an increase in the distribution next year if oil prices improve.

Suncor also has a strong share-repurchase program. In the third quarter, the company bought back and canceled $523 million in stock.

Should you buy?

Suncor is certainly not immune to low oil prices. A sustained drop below the $60 mark could mean smaller dividend hikes and a modification of the share repurchase program.

If Keystone XL and Energy East get built, the long-term benefit for shareholders is significant. If neither pipeline goes into operation, Suncor will continue to use rail cars, but railway bottlenecks and new regulations could inhibit rail transport moving forward.

At the current valuation, Suncor is probably a good long-term bet. If you are interested in dividend growth but don't want exposure to fluctuating oil prices, the following report on another top stock is worth reading.

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