



Why Suncor Energy Inc. Could Rise 40% in 2015

Description

Suncor Energy Inc.'s ([TSX: SU](#))([NYSE: SU](#)) stock took a big hit this year, declining 16% with the tumble in oil prices. Still, according to analyst estimates compiled by **Capital IQ**, the one-year target on the stock is \$47.45, about 40% higher than the stock's current price point. That is a very aggressive upside, and given the current state of the oil market, one that could be hard to believe. Still, the upside is a real possibility, here is why.

Operating costs

With all this chatter about how many oil producers are barely profitable at current oil prices, Suncor Energy is an exception. In the most recent quarter, Suncor Energy's cash operating cost was \$31.10 per barrel. For 2014 as a whole, Suncor's operating costs should fall in the range of \$31.50 to \$34.50. This means that even with oil trading where is at today, the company can still turn a profit, and even if oil plunges further, with the most pessimistic forecasts calling for \$45 a barrel minimum, Suncor Energy will be able to profit. Profitability is key to an appreciation in share value.

Financial position

Being able to turn a profit when low oil prices are low sets the stage for the company to see a stock value appreciation. But this would be a moot point if the company was already in a bad financial position. Suncor Energy is consistently generating free cash flow, and the company has the financial health to survive in a low oil price environment.

The company's metrics are clear evidence of its sound financial position. For example, Suncor Energy has a low debt-to-equity ratio of 28.40, most competitors sit around 50. Having a low amount of debt during a challenging time is good for the company, and provides more support to the potential for the company's stock value to advance next year.

Stock oversold?

Even though Suncor is in a strong financial position, the company's stock has felt the pressure of low oil prices. The negative sentiment surrounding the sector has discounted it. While some of this discount is valid, I believe in the case of Suncor Energy the fall has been overdone. Due to the speculative nature of many oil investments, if oil falls further, the stock may first see some losses

before it gains.

In the long run, oil will recover, and once the fear over the oil market subsides, Suncor Energy could see a dramatic upswing thanks to its low operating costs and strong financial position.

CATEGORY

1. Investing

TICKERS GLOBAL

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