3 Reasons Suncor Energy Inc. Should Be a Core Holding in 2015

Description

As predictions for 2015 oil prices fluctuate, energy companies with weak balance sheets are slashing dividends and trimming capital programs. Not all players in the space are the same, though, and the carnage has created some good buying opportunities.

Suncor Energy Inc. (TSX: SU)(NYSE: SU) has rebounded 20% since hitting a 12-month low of $31 in the middle of December. It takes a bit of courage to pull the trigger right now, but I think the rally could continue right through next year.

Here's why.

1. Stronger oil prices

Saudi Arabia is expecting the price of oil to average $80 per barrel in 2015. This is a pretty good indication that the downside risks from current levels should be limited.

High-cost shale plays could start to drop out of the picture in the first half of 2015 and global producers will likely trim production despite public announcements that they are leaving the taps wide open. The combined supply reductions should provide support for higher oil prices in the second half of next year.

2. Asset diversification

Suncor is Canada's largest integrated oil company. The strong mix of production, refining, and retail assets gives the company and its shareholders a nice hedge against volatility in the oil market. This is the main reason the stock has held up so well compared to its peers.

Suncor's upstream facilities are among the best assets on the planet. With nearly 7 billion barrels of reserves and 23 billion in contingent resources, Suncor is sitting on decades of production capability.

In Q3 2014, Suncor's oil sands operations hit record oil output of 412,000 barrels per day. The higher production will help offset lower average oil prices until the market stabilizes. Suncor is also doing a good job of improving efficiency. Operating cash costs for the third quarter of 2014 were $31.10 per barrel. This means investors should feel comfortable holding the stock even if prices stay around $60 for the first part of the year.

Suncor's refining operations are helping to support revenue and earnings. Three of the company's four refineries just completed major upgrades. This should mean the division is primed to operate near capacity through most of 2015. Feedstock costs are much lower than previous quarters, so margins at the refineries should be strong in the new year.

Suncor also just completed a new rail offloading facility in Quebec. The continued investment in midstream assets is important for shareholders because long-term growth depends on Suncor's ability to send crude to overseas markets.

In September, Suncor sent its first tanker full of crude to Europe.

The downstream assets continue to deliver solid cash flow. Suncor's 1,500 Petro-Canada gas stations are cash cows and provide a stable stream of revenue during weak periods in the oil market.

3. Secure dividend

Suncor pays a dividend of $1.12 per share that yields 3%. The company raised the distribution significantly in the past three years, and investors shouldn't worry about a cut. Any improvement in oil prices through 2015 could actually support another dividend increase.

Suncor also has a large share-buyback program. In the third quarter alone, Suncor repurchased $523 million in stock.

Should you buy now?

The chaos in the oil market appears to be calming down and it looks like crude prices are beginning to stabilize. At this point, Suncor is probably a good long-term investment. 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.

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
2025/09/18
Date Created

2014/12/26
Author
aswalker