The Stock Picker's Guide to Suncor Energy Inc. for 2015

Description

The year 2014 was certainly a difficult one for Canada's oil producers, with oil prices collapsing from June to September. **Suncor Energy Inc.** (TSX: SU)(NYSE: SU) was no exception, as its share price fell from a high of $47 to a low of $31. And although the shares have rebounded slightly since then, this is a very ominous time for the company.

That being said, Suncor is likely one of the lowest risk options in Canada's energy patch. So if you're looking for some exposure to the sector in 2015, and don't want to roll the dice, this stock is likely your best option.

Below we take a look why.

Low costs

The Canadian oil sands are generally regarded as a high-cost place to drill for oil. But at Suncor, oil sands cash operating costs are in the low $30s, allowing the company to remain profitable after oil's plunge. Suncor is guiding for similar cost numbers next year. Better yet, Suncor's assets are very long-life – its reserves are substantial enough to maintain current production for 37 years.

Longer term, the outlook looks even better on the cost side. The company has estimated it can produce an extra 100,000 barrels per day just from efficiency improvements. And if oil prices stay low, that should eventually help reduce labour and equipment costs. So Suncor should be able to remain profitable in any realistic price environment.

Diversification

What most people don't realize is that Suncor makes just as much money from downstream operations (which include refineries and gas stations) as it does from the oil sands. This provides a great source of diversification, and is one of the reasons why Suncor's stock has not suffered so much during the latest downturn.

Financial discipline

Two years ago, Suncor planned to increase oil sands production to 1 million barrels per day by 2020. But under CEO Steve Williams, the company has abandoned those plans and pulled back dramatically. And the results have been very beneficial for shareholders. As of the last quarter, Suncor had about $6.5 billion in net debt, only about 12% of the company's market value. This has allowed the company to stay very healthy during the downturn.

Better yet, Suncor pays a very affordable dividend. To illustrate, it's paid just over $1 per share to shareholders in the past year. This is well below the $6 per share in operating cash flow it's earned in the last 12 months. As a result, the company has been able to devote some spare cash to reducing the share count.

So Suncor should remain financially healthy for a very long time, even in a very dire oil price environment. It may be the lowest risk option in the energy sector.

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