



Despite the Crude Price Crunch, Every Investor Should Consider Suncor Energy Inc. in 2015

Description

The crude price crunch has triggered a rout among oil stocks as investors withdraw from the energy patch in order to cut their losses with fears that crude could fall as low as \$40 per barrel. It is easy to get caught up in the hype surrounding the price crunch and the impact it has having on the patch, but despite the short-term negative outlook it has created a number of long-term buying opportunities for investors.

One that stands out is integrated energy major **Suncor Energy Inc.** ([TSX:SU](#))(NYSE:SUY), which over the last three months has seen its share price plunge 16% because of this rout. This I believe has created a solid long-term buying opportunity for investors.

Let me explain why.

First, as an integrated energy major, Suncor is better equipped to manage lower crude prices.

Significantly lower crude prices may signal doom for many small to mid-sized upstream oil explorers and producers. But Suncor is in a position to take advantage of these lower crude prices.

This is because its refining operations are able to generate a higher margin as the price of crude falls creating a cushion, which offsets the decreasing margins from its upstream operations. These downstream operations also allow Suncor to more effectively manage the price differentials between Canadian crude blends and the benchmark West Texas Intermediate or WTI oil price.

As a result Suncor's earnings is far smoother and dependable than many of its smaller upstream peers.

Second, Suncor's business is almost impossible to replicate.

While it is relatively easy for a start-up company to acquire the required capital and regulatory permits to explore for and produce crude, establishing a large integrated oil major is a far different prospect. This is because of the added complexity and investment required to establish downstream operations, including the additional steep regulatory barriers, which must be met.

Each of these factors gives Suncor a solid economic moat and helps to preserve its competitive advantage.

Third, unlike the majority of its peers Suncor has deep pockets, allowing it to weather any prolonged softness in crude prices.

Many of the smaller to mid-size operators in the patch have their business models predicated on growing cash flow by boosting crude production through acquisitions and higher energy prices. They are also heavily dependent upon debt as a means of funding their acquisitions and operations. This leaves them particularly vulnerable to the crude price crunch we are currently witnessing.

Suncor has built a strong balance sheet, characterised by a particularly low degree of leverage and a high degree of liquidity. This can be seen at the end of the third quarter 2014 where it had net debt of \$6.1 billion, or less than one times operating cash flow, with \$5.4 billion of cash on hand.

This leaves it extremely well positioned to weather softer crude prices, even for a prolonged period, and it could even consider acquiring any quality bargain-priced assets created by the crude price crunch.

Finally, Suncor has a history of continuing to reward shareholders through a steadily appreciating and sustainable dividend.

Already, the crude price crunch has claimed the scalps of a number of monster dividend yields in the patch, which were predicated on higher crude prices and increasing cash flows in order to remain sustainable.

Despite hiking its dividend for the last 12 years straight, Suncor still maintains a very conservative dividend payout ratio of 48% of its net income. Even more surprising is that at the height of the global financial crisis where WTI fell to as low as \$37 per barrel, Suncor still hiked its dividend.

This highlights the robustness of its operating model and ability to weather the current crude price crunch, while still continuing to reward investors through a steadily appreciating but modest dividend currently yielding 3%.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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