



Why You Should Expect a Big Announcement From Suncor Energy Inc. Very Soon

Description

On Monday, the carnage in Canada's energy patch continued, with **Goldman Sachs** revising its oil price forecasts.

Goldman now expects the American per-barrel oil price to fall to US\$41 in three months and US\$39 in six months, before recovering to US\$65 in a year. The forecast is well below previous estimates of US\$65 in six months and US\$80 in a year. According to numerous analysts, these predictions are especially troubling because Goldman sees oil prices remaining depressed well into 2016.

Of course Canada's oil producers are not standing still. Forecasts are being cut, as are capital spending budgets. **Canadian Natural Resources Ltd.** was just the latest, as it cut its 2015 capital budget by 28% on Monday. Other producers have had to slash their dividend as well.

That being said, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) has been unusually silent. Its 2015 capital budget plan was announced back on November 18, when oil was trading above US\$70, and hasn't been revised since then. To be fair to the company, it doesn't want to continually release new plans as oil falls. But the time has come to give investors an update.

So what should you expect to hear? And how will the stock react?

The original plan

Suncor's original plan is clearly in need of updating. It calls for investment spending of roughly \$7.5 billion, about 10% higher than in 2014. If the company sticks to that plan, it will be practically the only major oil company to increase its spending this year.

Fort Hills should be the first to go

Fort Hills is a massive oil sands mining project that Suncor plans to develop with two partners. Unfortunately, it comes with a \$13.5 billion price tag. In fact, analysts generally agree that Fort Hills was marginal even at higher oil prices. One analyst said that oil needs to trade at US\$90 just for the

project to break even.

To Suncor's credit, it has generally been fairly disciplined with its money in recent years. Importantly, this has meant cancelling some uneconomic projects. Most notably, the company canceled the \$11.6 billion Voyageur upgrader project in 2013 due to soaring capital costs.

So how will the stock price react?

In the last couple of months, oil stocks have tended to spike upwards when spending cuts are announced – that is clearly what investors are looking for right now. For example, **MEG Energy Corp** jumped by as much as 45% the day it announced spending cuts (although it ended the day up just 11%).

Suncor shares could also react well to a revised capital plan — after all, investors should react very well to Fort Hills being deferred. But short-term trades (especially in the energy sector), are extremely risky, and not something I would advise. And longer term, the carnage could get even worse, especially if Goldman Sachs is right. Your best bet is to watch from the sidelines.

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

2025/07/22

Date Created

2015/01/12

Author

bensinclair

default watermark