A Look at the Surprising Cuts Suncor Energy Inc. Didn't Make

Description

This week **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) announced that it was slashing $1 billion from its capital spending program in response to low oil prices. That's a pretty deep cut as it will bring the company's spending down to $6.2-6.8 billion this year. However, what's interesting about this cut isn't what's being axed, but what Suncor Energy spared.

What's getting cut

The billion-dollar budget cut will result in some of the company's major projects being deferred. Specifically, the company's MacKay River 2 and White Rose Extension projects are both being deferred for the time being. While neither project has been sanctioned yet, Suncor Energy has been spending money on both projects in preparation for future construction. With this week's cut future construction will be pushed back indefinitely.

By deferring these projects farther into the future, Suncor Energy is pushing its growth potential back a few years in hopes of cashing in on better oil prices. But the company isn't putting the brakes on all of its future growth. Instead, it's going to keep pouring cash into two surprising projects that aren't expected to start producing until late 2017.

Surviving the ax

The first project that Suncor plans to keep funding is the Fort Hills oil sand mining project. The company, along with partners **Total** (NYSE: TOT) and **Teck Resources Ltd** (TSX:TCK.A and TCK.B)(NYSE:TCK), originally gave the project the green light in late 2013. The $13.5 billion project is eventually expected to unlock up to 3.3 billion barrels of bitumen during its 50-year production life. Given the extremely long life of the project, the partners know that oil prices are likely to ebb and flow quite a bit so abandoning the project now that it's a year closer to producing oil and cash flow doesn't make sense.

Instead, Suncor is hoping that the current market environment will enable it to actually save some money on the construction on Fort Hills. With the oil industry in a downturn, the demand for services, equipment, and raw materials is expected to be weak, which should tame the massive cost inflation that has hurt the industry over the past few years sending project costs skyrocketing.

That's also the reason why Suncor Energy isn't abandoning its Hebron project offshore Newfoundland. That project is actually led by **Exxon Mobil Corporation** (NYSE: XOM) and includes **Chevron Corporation** (NYSE: CVX) and **Statoil** (NYSE: STO) as partners. This is a very interesting project as the oil field was initially discovered in 1981, however, the oil bust of the 1980s put this discovery on the back burner until 2008 when surging oil prices gave Exxon a reason to revisit the project.

Unfortunately, oil prices quickly plunged and the project was put on the back burner again until it was finally given the green light in 2013. However, over those five years cost estimates tripled to US$14 billion when it was finally sanctioned in 2013. The hope in continuing to move forward amid the current downturn in oil prices is that the project's cost will actually come down, which will enable the partners to earn more money once it's pumping oil.

Investor takeaway

Suncor Energy is being strategic in its investments during the current downturn. It's avoiding investing new money right now on starting up major projects. However, it's continuing to pump billions into already sanctioned projects in hopes of taking advantage of the current situation to see a break on costs as the company clearly doesn't see the oil bust lasting forever.

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Date
2025/08/18
Date Created
2015/01/14
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