



Should You Buy Suncor Energy Inc. or Imperial Oil Limited?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) and **Imperial Oil Limited** ([TSX:IMO](#))([NYSEMKT:IMO](#)) are two of Canada's oil titans. Energy investors have been moving into these two stocks because the companies offer integrated business models that are helping offset the devastating rout in oil prices.

Let's take a look at the current situation at Suncor and Imperial Oil to see if one company is a better opportunity right now.

Suncor Energy

Suncor is Canada's largest integrated oil company with world-class oil sands assets, four refineries, and a nationwide network of retail outlets.

Suncor's oil sands properties hold nearly \$7 billion barrels of the company's reserves. Production at the oil sands operations hit a record 412,000 barrels per day in the third quarter of 2014.

Suncor recently announced a \$1 billion spending cut for 2015, but the company said output will not be affected. Suncor is also staying the course on the \$13.5 billion Fort Hills oil sands project that is expected to begin production in 2018.

Operating cash costs for Q3 2014 were \$31.10 per barrel and the company expects costs in 2015 to be more or less the same.

Suncor's refineries are operating at near capacity and three of the facilities just received upgrades. The low cost of feedstock for the plants will help margins, especially when the company begins shipping crude oil along the Line 9B pipeline to its Montreal facilities. The Line 9 reversal project is expected to be completed and in operation in the first half of 2015.

Suncor pays a dividend of \$1.12 per share that yields about 3%.

Imperial Oil

Imperial Oil Limited has been around for more than 130 years. The company started out in southwestern Ontario, but it now operates from coast to coast with production, refining, and retail operations.

Imperial operates several major oil sands operations, but the two that are attracting the most interest right now are Kearl and Syncrude.

Kearl has 4.6 billion barrels of bitumen resources and an expected project life of 40 years. The asset began production in 2013 and the company is still working through operational challenges, but output continues to improve. Kearl now produces nearly 100,000 barrels per day and an expansion phase at the plant is expected to double the output.

Imperial Oil is the main operator for the troubled Syncrude project. The company runs the facility but only has a 25% equity interest. Syncrude has been plagued by operational problems for the past two years. Production is expected to remain flat for 2015 and operating costs are currently running at unprofitable levels, near \$45 per barrel.

The company also owns and operates a number of refineries, as well as the national network of Esso gas stations. These two divisions provide a solid revenue hedge against the hit being taken on the production side.

Imperial pays a small dividend that yields about 1%, but it has a huge share-buyback program. The company is majority-owned by **Exxon Mobil Corporation**.

Which should you buy?

Both Suncor and Imperial Oil offer good long-term prospects if you believe the price of oil will eventually move back above \$70 per barrel. Suncor pays a better dividend and the company's operations are more focused. Imperial offers the benefit of being owned by one of the largest companies on the planet. This is important in the current environment where cash is king. At this point, it's pretty much a coin flip between the two.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSEMKT:IMO (Imperial Oil Limited)
3. TSX:IMO (Imperial Oil Limited)
4. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/08/22

Date Created

2015/01/22

Author

aswalker

default watermark

default watermark