# Suncor Energy Inc. Bets Big That $100 Oil Is Coming Back

## Description

Earlier this month, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) announced that it was cutting $1 billion out of its capital spending program this year in response to low oil prices. While that was a deep cut, the company surprisingly kept in two of its multi-year, multibillion-dollar growth projects. One of the reason these projects were spared is because Suncor Energy is very bullish on future oil prices as it sees prices hitting upwards of $100 a barrel within the next four years.



### No reason for delay

According to a report in the *Wall Street Journal,* Suncor Energy CFO Alister Cowan said that, “In the longer term, oil is going to go back to $90-$100” and that the timeframe would be, “probably in three years or four years’ time.” So, because of that view the company isn’t going to delay large-scale growth projects as these projects are scheduled to come online right when Suncor thinks oil prices should have nearly fully recovered.

That said, the company is dialing back its spending just a bit in the near term in order to maintain a strong balance sheet. It currently has enough liquidity to fund its stakes in the Fort Hills oil sands mining project as well as the Hebron offshore oilfield development. It would rather fund these developments now rather than cancel or delay them in response to current oil prices. Further, the company knows that the costs of canceling or delaying a project that’s already in the middle of development is high, so it sees no need to waste any money by canceling a project that will be needed in a couple of years anyway.

### All systems go

It’s also important to note that Suncor Energy alone can’t make the decision to move forward on these two major projects because it has a number of partners in each project. For example, the $13.5 billion Fort Hills project is only 40.8%-owned by Suncor as French oil giant **Total** owns a 39.2% stake, while diversified Canadian miner **Teck Resources** owns the final 20% of the project. So, while Suncor Energy is the project operator due to its larger stake, it still can’t push forward unless its partners agree to continue funding their portion of the project. Given the fact that it’s continuing to move forward on schedule this is clearly the case where both partners agree with Suncor that oil prices will be much higher when the project produces first oil in 2017.

Hebron, likewise, has a number of other partners including operator **Exxon Mobil**, which has a 36% stake and **Chevron**, which holds a 26.7% stake. Suncor's stake is just 22.7% so its pull to push the project to continue is lessened by its minority stake. That said, clearly global oil giants Exxon Mobil and Chevron still see the massive US$14 billion project paying off when it starts pumping oil in a couple of years.

**Investor takeaway**

Oil prices might be down right now, but oil companies certainly don't expect them to stay at these levels for too long. That's abundantly clear given the fact that oil companies continue to invest billions of dollars into massive projects like Fort Hills and Hebron, both of which require lofty oil prices to make economic sense. So, while times might be tough in the short term, oil companies are making big bets that oil prices turnaround and yield big returns later on this decade.

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