



Can You Really Trust Imperial Oil Limited or Suncor Energy Inc.?

Description

On Monday, **Imperial Oil Limited** ([TSX:IMO](#))(NYSE:IMO) posted fourth-quarter results for 2014. And these results were well ahead of expectations.

But just as importantly, Imperial announced that its expansion plans remain unchanged, despite a steep drop in oil prices. As put by CEO Rich Kruger, "Imperial plans and operates its businesses with a long-term perspective that results in resiliency across a wide range of market conditions." In other words, the company views the oil price slump as temporary, and is simply taking a long-term perspective.

So with that in mind, should you invest in Imperial? Below we take a look.

A look at Kearl

Kearl is a massive oil sands mining asset located 70 kilometres north of Fort McMurray. Imperial has pinned its future on Kearl, hoping to eventually bring output up to 345,000 barrels per day. Production should last for 40 years.

The project is certainly an impressive one. Thanks to new production methods, bitumen is processed very efficiently, reducing both costs and the environmental footprint. But with lower oil prices, the project's economics have been called into question. A recent report by Citi Research said that Kearl's current expansion project requires US\$95 oil to break even, about double where prices currently stand.

To be fair to Imperial, it has already spent a lot of money on that project. So it may be too late to abandon the expansion. Still, this does show just how optimistic Imperial is about an oil price recovery.

Other companies thinking similarly

Imperial is not alone in its optimism. Just look at **Suncor Energy Inc.** ([TSX:SU](#))(NYSE:SU), Canada's largest energy producer. The company is forging ahead with its Fort Hills oil sands megaproject, even though US\$96 oil is required to break even. And Fort Hills is still in its early stages.

Why is Suncor doing this? Well, the company's CEO recently said at a conference he can see oil prices doubling in the next four years or so. Until then, Suncor may be able to save on development costs in this environment.

So what should you do?

If you're looking to bet on an oil recovery, Imperial may be the way to do so. The company has a very strong balance sheet, with \$6.7 billion in net debt (not bad for a company with over \$22 billion in equity). And of course Imperial also has a strong growth profile.

But is this really a bet you want to be making? We all know you're supposed to be greedy when others are fearful. But judging by Imperial and Suncor's actions, there's not very much fear in the industry.

Clearly, Canada's energy patch could go through a lot more pain in the coming months, even years. I would stay on the sidelines. Instead, if you're looking for a turnaround worth betting on, be sure to check out the free report below.

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Date

2025/08/22

Date Created

2015/02/04

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