



Does Suncor Energy Inc. Belong in Your Portfolio?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)), one of world's largest integrated energy companies, announced its fourth-quarter earnings after the market closed on February 4, and its stock has responded by rallying over 3% in the trading sessions since. Let's take a closer look at the results to determine if we should consider buying into this rally or whether we should wait for it to subside.

A quarter of year-over-year declines

Here's a summary of Suncor's fourth-quarter earnings compared to its results in the same period a year ago.

Metric	Q4 2014	Q4 2013
Earnings Per Share	\$0.06	\$0.30
Revenue	\$9.09 billion	\$10.19 billion

Source: Suncor Energy Inc.

Suncor's earnings per share decreased 80% and its revenue decreased 10.8% compared to the fourth quarter of fiscal 2013. The company's steep decline in earnings per share can be attributed to net income decreasing 83.1% to \$75 million, while its double-digit decline in revenue can be attributed to revenue declining in all three of its major segments, including a 17.4% decline to \$2.84 billion in its oil sands segment, a 23.4% decline to \$1.08 billion in its exploration and production segment, and a 7.5% decline to \$6.06 billion in its refining and marketing segment.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Total upstream production remained relatively unchanged at 557,600 barrels of oil equivalent per day.
2. Oil sands operations production decreased 6.2% to 384,200 barrels per day.
3. Operating costs per barrel in its oil sands operations decreased 6.5% to \$34.45 as a result of its

cost management initiatives.

4. Achieved record production of 182,200 barrels per day in its firebag operations, an increase of 18.2% from the year-ago period.
5. Return on capital employed contracted 290 basis points to 8.6%.
6. Operating profit decreased 60.3% to \$386 million.
7. Cash flow from operations decreased 36.5% to \$1.49 billion.
8. Free cash flow decreased 20.4% to \$2.1 billion.

Suncor also noted that it paid out approximately \$405 million in dividends and repurchased approximately \$493 million worth of its common stock in the fourth quarter, but as a result of low oil prices, it announced that it has suspended its share repurchase activity until further notice.

This is the first time the company has suspended repurchase activity since authorizing its share buyback program in September 2011. However, in that span of over three years, it repurchased 155.5 million shares of its common stock for a total cost of approximately \$5.3 billion, so I think it will resume repurchases as soon as it feels it can do so without endangering its long-term growth.

Is Suncor Energy a long-term buy?

Suncor Energy is one of the world's largest integrated energy companies, but low oil prices led it to report double-digit year-over-year declines in net income, earnings per share, revenue, cash flows from operations, operating profit, and free cash flow. However, analysts and investors alike were expecting the company to report year-over-year declines like this, so they shrugged off the weak results and sent its stock over 3% higher.

I think Suncor's stock represents a great long-term opportunity today, even after the 3% pop because it trades at inexpensive valuations and pays a generous dividend, and because I think the price of oil will rebound over the course of the year.

First, Suncor's stock trades at just 18.7 times fiscal 2015's estimated earnings per share of \$2.07 and only 14.5 times fiscal 2016's estimated earnings per share of \$2.67, both of which are inexpensive compared to its trailing 12 months price-to-earnings multiple of 21 and its five-year average price-to-earnings multiple of about 19.

Second, the company pays an annual dividend of \$1.12 per share, which gives its stock a healthy 2.9% yield and makes it qualify as both a value and dividend play today. Finally, I think the price of oil will rebound and head back to around \$80 per barrel by the end of the year, and I think this will lead to investors piling into stocks like Suncor.

With all the information above in mind, I think Suncor Energy represents one of the best long-term opportunities in the energy industry today, so investors should take a closer look and strongly consider initiating positions.

CATEGORY

1. Energy Stocks
2. Investing

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