



The Surprising Thing Suncor Energy Inc.'s CEO Just Said About Oil Prices

Description

A few weeks ago, **Suncor Energy Inc.'s** ([TSX:SU](#))([NYSE:SU](#)) management team made some rather bullish comments about the [return of \\$100 oil](#). CFO Alister Cowan said that, "in the longer term, oil is going to go back to \$90-\$100 per barrel" in "probably three years or four years' time."

However, during the company's quarterly conference call last week, CEO Steve Williams said that the company thought that it was "the stable pricing for the last few years which represented the anomaly." He basically told investors that he never really thought \$100 oil was here to stay, which is why the company instead had always been planning for lower oil prices.

Taking advantage of the situation

On the conference call Williams said,

"When global oil prices were consistently between \$105 and \$125 per barrel over the last few years, we continued to plan based on a much lower price, which we saw as more representative of the long term. We used the excess cash flow we generated to build a balance sheet that would see us through the downturn we knew would eventually come, and of course, we've returned over \$5 billion to shareholders for share buybacks and steadily increased our dividend."

Williams notes that Suncor Energy took advantage of the high oil price over the past few years to strengthen its business so that it could weather the storm it saw on the horizon. It didn't know when the price of oil would fall, or by how much, but the company just knew that the high price wouldn't last forever. Because of this, it used the cash flow from higher prices to bolster its balance sheet while also returning a good portion of that windfall to shareholders through buybacks and dividends.

Not surprised one bit

Williams then said,

“So today’s low oil prices should not come as a surprise. In fact, on the contrary with the stable pricing for the last few years which represented the anomaly. We planned for this crude price environment and we are prepared to manage through it. We’ve taken prudent actions to accelerate our cost reduction initiatives and defer some discretionary capital spending until a definitive price recovery is evident.”

Suncor’s CEO points out that the company’s view all along was that the stable \$100 oil price was unusual, and because of that, it purposefully planned for the day when it would come to an end. Part of that planning was to remain flexible enough so that the company could cut its spending when high oil prices came to an end. The company did just that when it [announced a billion-dollar capital expenditure cut](#) earlier this year.

Ready for the wild ride ahead

In essence, what Suncor is saying is that it knows that the price of oil is cyclical. So when its price had been high for a while, it knew that those good times would eventually come to an end. Likewise, the company knows that the lows the industry is experiencing now aren’t going to be here forever. This is why the company plans to continue to invest for an oil price somewhere in the middle. Williams suggested this by saying,

“So, in short, we’ve been managing the business and the balance sheet with the expectation of volatile oil prices. We fully expect the price cycle to include highs and lows and we have a financial strategy that’s designed to work through the entire price cycle.”

This is why the company can have the view that \$90-100 oil can return as it sees its price bouncing around instead of being stable at higher levels. However, it still plans to invest for an oil price in the middle because it can then fully enjoy the booms while preparing for the next bust.

Investor takeaway

A lot of Suncor Energy’s peers were just too bullish on the price of oil as many thought that \$100 oil was here to stay. Suncor, on the other hand, always planned on oil prices being volatile, so it was much better prepared to weather the storm when it finally came. That’s why its stock hasn’t fallen quite as far as its peers: it wasn’t about to be caught by surprise when oil prices reversed course.

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