



This Is the Smartest Move Suncor Energy Inc. Is Making Right Now

Description

The dramatic drop in the price of crude oil over the past few months has forced **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) to take action. Among the company's actions is its decision to [cut spending on projects it hasn't sanctioned yet](#). However, while those cuts make sense, the company's smartest spending cut is its decision to curb share repurchases for the moment. It's a move that makes a lot of sense given where its stock price is right now.

A big disconnect

While the price of crude oil has been cut in half, Suncor Energy's stock price is largely unchanged over the past year. The stock is only down about 5%, which is a pretty minor move considering how hard Canadian oil producers have been hit by the oil price slump. It is a slump that has taken the stocks of other oil producers [down by double digits](#) while [crashing the price of others](#).

Because its stock has barely moved it makes sense for the company to hold back on further share repurchases as it isn't buying back stock at all that big of a discount. The cash it will save is better spent elsewhere. All told, the move could save Suncor upwards of \$500 million per quarter, as it spent \$493 million last quarter alone on share repurchases and about \$5 billion over the past few years. By holding back on further buybacks it provides the dividend, which amounted to \$405 million in cash heading out the door last quarter, with even more stability during the downturn. Moreover, it ensures that Suncor doesn't rack up too much debt as it continues to move forward on its massive Fort Hills oil sands project.

Buying low

Suncor Energy has a history of timing stock buybacks very well. As the following chart shows, the company has been known to adjust its buyback to market conditions in the past.

[Suncor Energy inc Buyback](#)

What that chart shows is that the company is pretty disciplined in buying back stock. Over the past few years it has largely avoided buybacks when its stock is over \$35, while it's more aggressive after the

stock has fallen below \$30.

This history might suggest that Suncor Energy should be a buyer right now as its stock is well off its 52-week high and closer to that \$30 mark. However, the current discount isn't meaningful enough given how dramatically the price of oil has fallen over the past several months. So, by holding onto this cash Suncor will have greater flexibility to buy back its stock should its shares really take a tumble on another down draft in the price of oil.

Investor takeaway

Because Suncor Energy's stock hasn't fallen all that much, it makes sense for the company to halt its buyback for the time being. In doing so the company is ensuring its balance sheet remains strong so that its dividend isn't at risk. While it's possible that Suncor Energy will miss buying back its stock at the bottom, that's a risk worth taking given the uncertainty in the oil market at the moment.

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1. Editor's Choice

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1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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