



## Is Suncor Energy Inc. Really a Good Investment?

### Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is one of the most popular stocks in Canada, and investors could be forgiven for thinking the company is the holy grail of stock picks in the energy patch.

After all, Warren Buffett just added to his sizeable Suncor position, and you would be hard pressed to find anyone saying the stock should be avoided.

Let's take a look at Suncor to see what all the excitement is about.

### Performance

Shareholders get returns through stock price appreciation and dividend payments.

Investors who bought Suncor's stock 20 years ago have enjoyed a 1,500% increase in the share price. On the dividend side, the company has increased the quarterly payout by more than 800% in the last 10 years, from three cents to 28 cents per share.

Not too shabby.

Repurchasing shares is also an effective way a company can reward investors because every share that is purchased and cancelled gives the remaining shareholders a bigger slice of the pie.

Back in September 2011, there were 1.574 billion Suncor shares outstanding. At the end of 2014, that number was 1.444 billion. That means the company bought back and cancelled 130 million shares, or more than 8% of the outstanding stock in just three years.

Share buybacks also suggest the company's leaders are making disciplined capital-allocation choices. Choosing to return cash to stockholders instead of investing it means the company is sticking to its return on capital objectives.

Note: Suncor's buyback program is currently on hold, and its 2015 capital program has been reduced by \$1 billion to accommodate weakness in the oil market.

## Risks

Suncor's shares are actually trading higher than they were 12 months ago, but oil prices are still 50% below their levels at this time last year. This is a bit concerning. A weak Canadian dollar offsets the drop a bit, but the stock was either undervalued then, or is fully valued now.

Another issue to consider is the global movement to divest holdings in fossil fuel stocks. Last September, the Rockefeller Brothers Fund joined a group of 800 governments, institutions, and private investors who have said they will exit fossil fuel investments in the next five years. At this point, I think the threat to Suncor is minimal. More than 60% of Suncor is owned by institutional investors, but they are unlikely to divest as long as Suncor remains a profitable holding.

The threat of new climate change regulations is also coming onto the radar. In order to keep global warming below the critical two-degrees point, energy companies could be forced to permanently abandon reserves. For political and economic reasons, that's unlikely to happen anytime soon.

## So, should you buy Suncor?

The company's integrated business model offers investors a hedge against falling oil prices. Suncor has four world-class refineries and a great retail network of service stations. These bring in reliable revenues that help offset lower income from the upstream operations. Oil prices could take another run at \$40 or even go lower, but analysts tend to believe prices will eventually move back to \$70 or \$80 per barrel.

Suncor is a solid long-term holding. Given the current volatility in the oil market, the stock is probably a hold right now. New investors might get a shot at a better entry point in the next few months.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

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2. TSX:SU (Suncor Energy Inc.)

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