Earnings Preview: What's Next for Suncor Energy Inc.?

Description

The past year has been tough on the nation's energy patch: falling profits, dividend cuts, asset write-downs. **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), the country's largest oil producer, has not been spared from the carnage.

The company is due to report earnings next week and shareholders are bracing for yet another difficult quarter. Let's take an early look at what's been happening in the industry over the past few months and what we're likely to see in this report.

Stats on Suncor Energy

Analyst EPS Estimate	$0.15
Change From Year-Ago EPS	(88.0%)
Revenue Estimate	$7.03 billion
Change From Year-Ago Revenue	(23.4%)
Earnings Beats in Past Four Quarters	2

Source: Yahoo Finance

What's next for Suncor?

Energy producers are easy to understand. When oil prices fall, the value of their production goes down. That's why your savings at the gas pump have been such a disaster for the energy patch.

Suncor's previous earnings report showed just how hard the company has been hit. Last quarter, the Calgary-based firm posted only a meager $84 million profit, down 81% from the same period a year earlier. As a result, management halted the company's share buyback program and warned of $700 million in potential cuts to "discretionary growth" projects.

You can expect more of the same next week. Since the start of the year, the street has trimmed their earnings estimates for the upcoming quarter by 88% to only $0.15 per share. Analysts expect the company to earn $0.77 per share through the full year of 2015, down 75% from what the company hauled in last year.

The only good news for shareholders is the falling cost of doing business in the oil sands. Producers can now play hardball with suppliers, demanding discounts on everything from labour to materials and construction. We're also seeing cutbacks on little luxuries like employee parties and catered lunches.

This could allow Suncor to squeeze out better margins in one of the world's most expensive energy plays. That's a sharp reversal for an industry where frequent delays and cost overruns used to be the norm.

Low oil prices are also a boom for Suncor's downstream business—the refineries that convert raw crude into usable commodities like gasoline, jet fuel, and heating oil. These operations live and die by the price difference between a barrel of oil and their refined products. Low crude prices allow refiners to purchase their feedstock at a discount, enabling them to work in wider margins than they could otherwise earn.

Bottom line, Suncor is about to post another ugly quarterly report, but investors need to look beyond the headline numbers. Watch to see how the company is dealing with weak oil prices. For the stock to fare well, Suncor has to keep cutting costs in order to make the most of this low-margin world.

CATEGORY

1. Energy Stocks
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