



Should You Include Suncor Energy Inc. in Your Portfolio?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is Canada's largest energy company, and is a popular way to bet on an oil recovery. Below we take a closer look, and see if the company makes for a good investment.

A very stable company

Suncor was once known as a big spender, but has since become much more disciplined. Expenses have been cut, the balance sheet is stable, and growth plans have come down. As a result, the company is well positioned to survive the oil rout, even if prices stay low for many years.

Take the balance sheet, for example. Suncor has only about \$7 billion of net debt, a tiny number for a company worth nearly \$60 billion in the open market. Better yet, the company is ahead of schedule on its cost management program. Its planned cuts to capital spending are also on track.

If that wasn't enough, Suncor also has a big refining and marketing business (which includes the Petro Canada gas stations) that is performing very well. This business also helps to diversify revenue, making life even easier for the energy giant in this environment. No wonder it's such a popular stock.

A steep price

Unfortunately, popular stocks all have one thing in common: they are expensive. Suncor is no exception, no matter how you look at it.

To illustrate, let's take a look at the company's share price over the last year. At this time in 2014 the American oil price was a healthy US\$102.20 and Suncor shares were trading for about \$41. Since then, oil prices have fallen below US\$60, a drop of more than 40%. Yet Suncor shares have only fallen to \$40.

Or look at it this way: on average, analysts expect the company to earn \$0.74 per share this year. Suncor's shares trade for 54 times this number.

So, what's going on here? Why are Suncor shares trading so high? Well for one, many institutional investors have to hold at least some energy stocks. And with so many other energy firms in deep trouble, some of these institutions may have switched into Suncor. I can understand why—money managers often want to be seen investing in top-quality companies, even if they are a little pricey.

What should you do?

Fortunately, the rest of us have no such restrictions. We can buy zero energy companies, if that's what we want. And in my opinion that's a very good idea. The reason is simple: if you venture into the energy patch, you have to choose between financially unsound companies and overpriced stocks. That sounds like a bad choice to me.

CATEGORY

1. Energy Stocks
2. Investing

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