3 Reasons Why I Would Sell My Suncor Energy Inc. Shares If I Owned Any

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is Canada's largest energy company, and also a very popular way to bet on an oil rebound. Even Warren Buffett is a fan of the name.

It's easy to see why. Suncor has an incredibly strong balance sheet and has proven to be adept at cutting costs. Its refining and marketing business is performing well and it still has lots of growth opportunities. So, the company can survive low oil prices for a long time, and should emerge stronger when the slump ends.

This doesn't mean you should add Suncor to your portfolio. Rather, I think now is a great opportunity to sell the company. Below are three reasons why.

1. Uncertainty over oil prices

In recent weeks oil prices have moved off their lows, bringing much relief to energy companies. This has mainly been caused by unrest in Yemen as well as reduced drilling activity in the United States.

That said, oil prices could easily come crashing back down. The biggest risk involves a lack of storage capacity in the United States. If these storage tanks are filled to the limit, oil companies would have to dump all their product on the open market and take whatever price they can get. Another risk comes from Iran, which could export more oil if its sanctions are lifted (even gradually) later this year.

In the meantime, numerous wells in the United States have been drilled, yet remain unproductive. The reason is simple: drillers are waiting for oil prices to rebound before turning these taps on. *Bloomberg* estimates that this is keeping over 300,000 barrels of oil trapped underground. This should keep a lid on oil prices for quite a while.

2. Overly optimistic

Despite these warning signs, Suncor remains optimistic that oil will bounce right back. CFO Alister Cowan expects prices of US$90+ in three to four years. For this reason, Suncor is forging ahead with oil sands megaproject Fort Hills. The project is unpopular with investors, since it requires very high oil prices to be economic.

If Mr. Cowan is right, then Suncor is making a brilliant move. After all, labour and equipment costs are depressed these days, so this is exactly when you want to be investing. And when Fort Hills starts up in 2017, it will have a 50+ year life ahead of it.

That said, if Mr. Cowan is wrong, then Suncor is making a tremendous mistake, and shareholders will pay a big price. The risk is simply too big for my appetite.

3. Simply too expensive

This is easily the biggest problem with Suncor's stock. No matter how you look at it, the share price is not exactly depressed. Just look at what the stock has done over the last year: it's gone down by only 3.3%! Keep in mind that oil traded for about US$100 a year ago and today it trades for less than US$60.

Or look at it this way: analysts on average expect Suncor to make $0.74 per share this year in income. I know this isn't a perfect measurement, but that's still not a lot of earnings for a $40 stock.

So, at this point, I would sell my Suncor shares if I owned any, and I wouldn't buy any other energy companies with the proceeds.

CATEGORY

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2. Investing

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