How Is Suncor Energy Inc. Dealing With Low Oil Prices?

Description

As oil prices continue to languish, producers are finding a way to cope. There's no better example of this than **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), Canada's largest energy company.

So, what exactly is Suncor doing to cope with such low energy prices? Will it be enough? And most importantly, should you buy the stock? Below we take a look.

Coping and capitalizing

Before Steve Williams took over as CEO of Suncor, the company was known for prioritizing growth over cost control. This was somewhat understandable—with the exception of the economic crisis, oil prices were climbing steadily, and costs were increasing for the whole industry.

But since taking over in 2012, Mr. Williams has done an excellent job reigning the company in. Notably, he abandoned an ambitious plan for one million barrels of production per day by 2020, allowing the company to focus more on cost control. It paid off big time—in the 12 months to June 30th 2014, Suncor's free cash flow increased by 66% over the year-prior period.

Now that oil prices have fallen so much, Suncor has doubled down on these efforts. The company expects to save roughly $700 million in operating expenses this year, and has also cut its capital budget by $1 billion. Its operating cost per barrel in the oil sands decreased by 20% year over year in the first quarter.

Suncor is also taking a new approach to growth. Instead of relying on massive new processing centres to target large regions, the company is building small, standardized oil sands plants to target so-called resource pockets. The new strategy will not only be cheaper, but also should be less subject to costly delays. This should all be music to a shareholder's ears.

Still some concerns

Without doubt, Suncor is making the right moves in this oil price environment. But there remains a big problem: other oil companies are doing exactly the same thing.

In Canada there are plenty of examples. **Canadian Natural Resources Ltd.** reduced liquids costs by 22% per barrel in the first quarter. **MEG Energy Corp.** lowered this number by 23%. Similar numbers can be found in the United States.

This should surprise no one. With oil prices so low, producers simply aren't drilling as much, which decreases the cost of labour and materials.

For this reason, oil prices could easily stay this low for a long time. After all, if so many producers are able to cope with these low oil prices, then the market may have reached a new normal.

Should you buy the stock?

Suncor is a very popular stock to hold right now, and it's easy to see why. Unfortunately, the stock is expensive as a result, and is pricing in a robust recovery in oil prices. This recovery may not happen for a long time.

At this point, there's still plenty of downside with Suncor's stock price, and for that reason you should avoid the company's shares.

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