Why Suncor Energy Inc. Is My Top Oil Pick

Description

Imagine for a moment a company that has consistently paid dividends that have grown over the past five years, with a strong balance sheet. Now imagine that this same company is not only the largest oil company in Canada, but has found a way to decrease production prices despite a very costly extraction process and falling oil prices. That company is **Suncor Energy Inc.** (TSX:SU)(NYSE:SU).

Suncor investors are in good company

Suncor has caught the eye of many an investor in recent months. **Berkshire Hathaway's** stake in the company has increased considerably to over 22 million shares during the first quarter. Warren Buffett's company has good reason for jumping onboard too.

Suncor consistently holds up much better than the competition, with higher gross margins than the 18 largest oil/natural gas producers, and four times higher than **Exxon Mobile Corp.**, which, perhaps not coincidentally, Berkshire Hathaway dropped before increasing its stake in Suncor.

Cost cuts through technology

Suncor uses some of the largest trucks in the world to haul hundreds of tons of sand in each load to extraction plants that separate bitumen from sand, processing it into oil, at a volume of 1 million barrels per day. It's a long, complex, and expensive process to turn sand into oil.

Drivers for those heavy haulers don't exactly come cheap – their average annual salary is $200,000. Considering the harsh climate of northern Alberta and the skills needed to navigate those behemoths through unpaved and remote terrain, their salary is somewhat justifiable.

This is also where the cost-cutting comes into play. Suncor recently entered into an agreement with **Komatsu Ltd.** of Japan to purchase 175 new heavy hauler trucks that are “autonomous-ready” – in other words, driver optional. Considering there are nearly 800 operators of these trucks working for an average of $200,000 a year, the savings the company could recover by moving to autonomous trucks are immense. The driverless fleet is not expected to be completely up and running for a few moreyears.

As production increases, the costs associated with extracting oil from tar sands decrease due to efficiencies. Several years ago, extraction costs averaged $40 a barrel. Last quarter this figure was $28. With up to 10 new projects coming online within the next few years (each of which could increase production by 40,000 barrels per day), this and other efficiencies could drive costs down even further.

The fact that Suncor is thinking about innovative changes and future expansion like this is one of many reasons I am excited about this company. Its constantly investing in better, more efficient processes and equipment, rather than sitting on its laurels. Couple that with its low debt and healthy dividends, and it makes for an impressive part of any portfolio.

CATEGORY

1. Energy Stocks
2. Investing

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