Suncor Energy Inc.: What Should Investors Do?

Description

Shares of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) are trading near their lowest levels of 2015, and investors are wondering if this is a good opportunity to start a position in the stock.

Let's take a look at the current situation to see if Suncor deserves a spot in your portfolio today.

Diversified revenue streams

Suncor's shares have held up reasonably well during the past year because the company is much more than just an oil sands producer. It also owns significant refining and retail divisions.

The refining operations turn crude oil into gasoline, diesel fuel, asphalt, and lubricating oils. Lower oil prices hurt margins on the upstream operations, but they can be beneficial for the refineries as input costs drop.

On the retail end, Suncor operates more than 1,500 Petro-Canada service stations. With gas prices at multi-year lows, Canadians are more likely to take longer road trip or buy bigger cars, and that bodes well for the retail business.

Solid balance sheet

Survival in the oil patch is all about the strength of a company's balance sheet. Suncor is a major player with the financial firepower to endure a prolonged slump. The company finished Q1 2015 with nearly $5 billion in cash and cash equivalents and just $13 billion in long-term debt. The debt load looks big, but it is actually very reasonable for a company with a market capitalization of $50 billion.

Dividends and share buybacks

Suncor pays a sustainable dividend that yields a healthy 3%. The company also has a strong track record of repurchasing its shares, which is equally important for long-term investors.

Problems with politics and pipelines

The NDP victory in Alberta has thrown an unexpected curve in the energy industry's road to recovery.

Just as it looked like western Canadian oil and gas producers were starting to stabilize, the new uncertainty around tax and royalty policies has forced producers to once again wipe the chalkboard clean on their capital investment plans. The situation is also keeping would-be investors on the sidelines, especially those located south of the border.

As a major oil sands producer, Suncor will certainly be impacted by any changes the NDP government decides to make.

Suncor's refining operations are also dealing with frustrating news. The company expected **Enbridge's** Line 9 reversal to be up and running by now after lengthy delays related to safety upgrades required by the National Energy Board (NEB).

Suncor thought all the requirements had been dealt with, but the NEB just announced eight new conditions that must be met before companies can start shipping oil along the pipeline.

The project will enable Suncor to send western Canadian crude to its refining operations in Quebec. Until now, the company has relied on foreign oil to supply most of the feedstock. In recent years, Canadian oil sent by rail has reduced the need to buy from international sources, but the Line 9 reversal would enable Suncor's Montreal facilities to get all the feedstock crude from western Canada.

Should you buy Suncor?

Suncor has a business outlook that spans decades. Investors who believe in the long-term oil story should consider adding Suncor to their portfolios. A number of other names in the sector are certainly cheaper, but the risks are also much higher with those companies if oil prices trend lower for an extended period of time.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/09/18
Date Created
2015/06/26

Author
aswalker