Suncor Energy Inc. and Imperial Oil Limited: Canada’s 2 Low-Risk Energy Companies

Description

After what’s happened in the past year, it’s evident that most of Canada’s energy companies are very risky. Many have high debt levels, or big growth projects, or high costs. In any case, these companies count on high prices for oil and gas. So, when these prices fall, as they have in the past 12 months, the results can be disastrous.

With that in mind, suppose you want to buy some energy names, but don’t want to take outsized risks? Is that even possible?

Fortunately, two large energy companies in particular are very low risk: **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO). What makes them less risky than other energy companies?

Clean balance sheets

If you look at the worst-hit companies over the past year, the list is made up almost exclusively of companies with poor balance sheets. This should make plenty of sense. A big debt burden makes financial obligations difficult to meet when oil prices are plummeting. To deal with this problem, many companies have had to raise new capital, cut growth plans dramatically, or slash dividends, all of which can weigh heavily on a company’s stock price.

But Suncor and Imperial don’t have that problem. Suncor’s net debt stands at roughly $9.5 billion, not much for a company worth $50 billion. For its part, Imperial’s net debt stands at just $7.5 billion, a very small number considering the company is valued at over $40 billion.

For this reason, both companies have ample flexibility in this environment. If they wanted to ramp up their growth plans, taking advantage of cheap equipment and labour costs, they could. Or if they wanted to snap up a cheap acquisition, they could do that, too. They could also devote more capital to share buybacks. Either way, shareholders can be confident that these companies control their own destiny.

A diversified business model

Both Suncor and Imperial Oil are integrated energy companies, meaning they own refining and marketing businesses, in addition to their oil production. Most notably, Suncor owns the Petro Canada gas stations, and Imperial owns the Esso stations.

This integrated model comes with some big advantages. First of all, it allows Suncor and Imperial to refine their own product and sell it on world markets rather than just in North America. This reduces the risk if American oil production skyrockets. Secondly, the integrated model provides some much-needed diversification.

Does that mean you should buy the shares?

Not necessarily. Both these companies' share prices have held up fairly well throughout the oil rout, and are quite expensive as a result.

That said, these are still two very solid companies and they will continue to thrive, even in a low oil price environment. So, if you really want some exposure to the energy sector, but don't feel like gambling, then look no further.

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1. Energy Stocks
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2. NYSEMKT:IMO (Imperial Oil Limited)
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Date
2025/08/22
Date Created
2015/07/17
Author
bensinclair