



Is Suncor Energy Inc. a Buy Following its Q2 Earnings Beat and Dividend Hike?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)), one of world's largest integrated energy companies, announced second-quarter earnings results after the market closed on July 29, and its stock has responded by rising over 3%. Let's take a closer look at the quarterly results to determine if this could be the start of a sustained rally higher, and if we should consider initiating long-term positions today.

The results that sent its shares soaring

Here's a summary of Suncor's second-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Operating Earnings Per Share	\$0.63	\$0.33	\$0.77
Total Revenues	\$8.14 billion	\$7.28 billion	\$10.65 billion

Source: *Financial Times*

Suncor's operating earnings per share decreased 18.2% and its revenues decreased 23.5% compared with the second quarter of fiscal 2014. The company noted that these weak results could be attributed to "significantly lower upstream price realizations," including its average realized price of oil decreasing 36.9% to \$60.81 per barrel in its oil sands segment, which could not be offset by the positive impacts of increased production, a favourable downstream pricing environment, higher refinery utilizations, and lower operating costs.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. Total production increased 8% to 559,900 barrels of oil equivalents per day
2. Production increased 11.3% to 448,700 barrels per day in its oil sands segment
3. Production decreased 3.6% to 111,200 barrels of oil equivalents per day in its exploration & production segment

4. Suncor's share of Syncrude production increased 2.5% to 24,900 barrels per day
5. Refinery crude oil processed increased 6.6% to 416,800 barrels per day
6. Cash operating costs per barrel decreased 17.9% to \$28.00 per barrel in its oil sands segment
7. Operating earnings decreased 20.2% to \$906 million
8. Cash flow from operations decreased 10.4% to \$2.16 billion

Suncor also announced a 3.6% increase to its quarterly dividend to \$0.29 per share, with the next payment coming on September 25 to shareholders of record at the close of business on September 4, and the renewal of its share repurchase program, in which the company may repurchase up to \$500 million worth of its common shares beginning August 5, 2015 and ending August 4, 2016.

Should you buy or avoid Suncor Energy today?

Suncor posted great results given the numerous headwinds it was faced with in the second quarter, so I think the post-earnings pop in its stock was warranted. I also think this could be the start of a sustained rally higher because I think commodity prices will recover over the next 12 months, because its stock trades at inexpensive forward valuations, and because it has a dividend yield of more than 3% with an impressive track record of increasing its annual payment.

First, I think commodity prices will recover over the next year, with oil rebounding to about US\$75 per barrel, and this will lead to higher revenues and overall profitability for Suncor.

Second, Suncor's stock trades at just 19.7 times fiscal 2015's estimated earnings per share of \$1.83 and only 15.5 times fiscal 2016's estimated earnings per share of \$2.33, both of which are inexpensive compared with the industry average multiple of 27.9, the latter of which is inexpensive compared with its five-year average multiple of 19.

Third, Suncor now pays an annual dividend of \$1.16 per share, which gives its stock a 3.2% yield at today's levels. It is also important to note that this increase marked the 13th consecutive year in which the company has increased its dividend, making it one of the top dividend-growth plays in the market today.

With all of the information provided above in mind, I think Suncor Energy represents one of the best long-term investment opportunities in the energy sector. All Foolish investors should strongly consider beginning to scale in to positions over the next couple of weeks.

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Date

2025/09/18

Date Created

2015/07/30

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