



## What Makes Suncor Energy Inc. Such an Outperformer?

### Description

To say the least, the fall in oil prices has not been kind to Canada's energy producers. It has led to plummeting profits, investments, dividends, and share prices at countless firms. No company has been able to insulate itself from the carnage.

But one producer has navigated these choppy waters particularly well: **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). And its shareholders have been rewarded as a result. Since June 2013 Suncor's shares have actually *increased* by 17%. Over the same time period, the WTI oil price has fallen by nearly 50%.

So, what makes Suncor so special anyways?

#### 1. A disciplined approach

Suncor used to be a very ambitious company, one that made growth a top priority. But under new CEO Steve Williams, the company has become far more disciplined.

Notably the company dumped its goal of one million barrels per day (bpd) of production by 2020. Natural gas assets were jettisoned. The company shifted its spending towards buybacks and dividends. Free cash flow improved dramatically.

Impressively, this shift in strategy took place before oil prices collapsed. And that made it much more effective than when other companies scrambled to respond to a changing environment.

#### 2. A clean balance sheet

If you look at which companies have suffered the most from collapsing prices, it's the ones with lots of debt on their books. That shouldn't surprise anyone.

Suncor is not one of those companies. Its net debt of \$9.2 billion is only 17% of the company's market value. This is one of the lowest ratios in the sector, and a big reason why the company's share price hasn't fallen so far in the past year.

### 3. A popular stock

We all know Suncor has made some meaningful improvements, and has grown quite nicely in the past couple of years. But that does not justify such an increase in its stock price—oil prices have simply fallen too far over this stretch. If you don't believe me, Suncor now trades at close to 40 times earnings. So, what else is going on here?

Well to get some context, professional money managers in Canada usually have to hold at least some energy companies. Otherwise they would stray too far from the index. And clients typically like to see strong, stable names in the portfolio.

As a result, many of these money managers have been switching their energy holdings into Suncor. This has bumped up the company's share price higher than where it should be.

As for the rest of us, we don't need to hold any energy names if we don't want to. If you're looking for strong, stable stocks, you should avoid energy producers altogether. Instead, you should look for alternatives in other industries.

#### CATEGORY

1. Energy Stocks
2. Investing

#### TICKERS GLOBAL

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

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