



Is Suncor Energy Inc. Worth Buying for \$37.75 Per Share?

Description

The Canadian-listed shares of **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) closed at \$37.75 on Tuesday, up about 15% in just the last two weeks. Interestingly, this is the same price that Suncor traded at in October 2013.

Of course, a lot has happened since then, both good and bad. We take a closer look and try to answer the all-important question: are Suncor shares a bargain?

The good

Suncor used to be a company that emphasized growth over discipline, but that has changed markedly in recent years. To illustrate, Suncor's cash operating costs in the oil sands totaled \$46.55 per barrel in the second quarter of 2013. In the second quarter of 2015, that number sunk down to \$28. Meanwhile, production from the oil sands increased by 45% over this time period. As a bonus, operating earnings from the refining and marketing business has increased at about the same rate.

Suncor has also been returning cash to shareholders, both through buybacks and dividends. The company's share count has decreased by 4% in the last two years, and its dividend has increased by 45%.

So, Suncor has increased production, increased the dividend, reduced costs, and reduced the share count over the last two years. There are very few energy companies that can make the same claims.

The bad

The one big thing that's gone wrong for Suncor is the decline in oil prices. From Q2/2013 to Q2/2015, the average WTI oil price sunk from US\$94.20 to US\$57.95, a decline of nearly 40%. The Brent price sunk by a similar amount.

This has had a big impact on Suncor's earnings. Over the past 12 months, Suncor has earned only \$0.95 per share. Two years ago, this number was \$1.81.

And since the end of the quarter, the bad news has only gotten worse. WTI is now once again below US\$45, lower than it was even in the first quarter. There's potential for more downside as Iran ramps up its oil exports. Meanwhile, gasoline prices are set to decrease once the summer driving season ends.

The verdict

At \$37.75 per share, Suncor trades at close to 40 times earnings. This is a very high number, especially considering the decrease in oil prices over the past six weeks. Clearly, Suncor is a very popular stock.

Thus at this point, it's clear there's very little upside for the share price, and your best bet is to look elsewhere. The free report below is a great place to start.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:SU (Suncor Energy Inc.)

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