3 Reasons I Like Suncor Energy Inc. Despite Oil Prices

Description

It has been an unfortunate week for investors of all stocks, but particularly, investors of oil stocks. Not only has oil flirted with prices under US$40 a barrel, but the market collapsed from underneath these companies, sending share prices even lower.

I can empathize with investors that just said "to heck with it," and sold their positions. But if you haven't done this or wish you could be back in, the one company I think you should consider buying, holding, and forgetting is **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). In many ways, Suncor is Canada's top oil company. Not only has the company not had to completely slash its spending, but it has actually been able to increase its dividend despite where oil prices are.

While there are many reasons to consider Suncor, here are three that I think stand out.

1. Tremendously efficient operations

One thing that jumped out at me about the CEO of Suncor was that he understood that $100+ a barrel oil prices couldn't last. Because of this, he led an initiative to decrease the cost of operation by $600-800 million over a two-year period. The good news is that it is well on its way to achieving this.

By making it less expensive to get oil out of the ground, Suncor is able to generate cash flow even when prices are as depressed as they are. In the second quarter of 2013, Suncor paid approximately $46.55 to get a barrel of oil from its oil sands. In the second quarter of 2015, that cost was $28. That requires focused efforts on decreasing costs.

2. Smart investments in the future

While it has been able to decrease its cost per barrel, it has actually increased production by 45% over those two years in the oil sands. The company intends to spend $5.8-6.4 billion this year on capex. Half of that will likely be invested in future growth projects. For example, it has operations in Fort Hills and Hebron that will not deliver any oil until 2017. This means that the company is investing for a time when prices may be less volatile.

The primary reason the business can do this is because of how strict it has become with its money. Now, this doesn't mean that Suncor is spending freely. Along with its second-quarter results, the company announced that it was cutting $400 million from its capex budget. The company is making investments that will help in the long term without hurting the company in the short term. Not many oil companies can say the same.

3. It rewards investors handsomely

Over the past two years, the share count has decreased by 4%. During that same time period, the dividend increased by 45%. Now, this was obviously during times of much more lucrative oil prices, but that hasn't stopped the company from continuing to put its money where its mouth is.

During its second-quarter earnings call, the company revealed that it was increasing its dividend by 3.6% to $0.29 a share. This means that the company pays out approximately $1.16 a share. At current prices, this gives the company a yield of 3.36%. While it is certainly not the greatest yield for dividend investors, it is still a safe bet for those that want exposure in the oil market. And as Suncor continues to buy back more shares, the price of the stock should only rise.

For those that want to sleep well at night, Suncor is the right company to own.

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