



## Why Now Is the Time to Buy Suncor Energy Inc.

### Description

The sharp collapse in oil hasn't done Canada's energy patch any favours. Companies have slashed investments and dividends as they struggle to shore up their balance sheets and preserve cash flow. These significantly weaker crude prices have triggered a savage sell-off of energy stocks, and the **TSX Capped Energy Index**—a weighted index of the 52-largest energy companies listed on the TSX—plunging 29% since the start of 2015.

However, unlike many of its smaller peers, integrated energy major **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is well positioned to weather the current harsh operating environment and appears attractively priced.

### Now what?

There is no doubt that oil prices are having an impact on Suncor's earnings, but it is certainly not as severe as many of its peers. For the second quarter 2015, cash flow from operations fell by 9% year over year, but this is in stark contrast to crude benchmark prices plunging over 40% for the same period.

So, how did Suncor achieve this?

Key among Suncor's advantages over many of its peers are its refining operations. As oil prices have collapsed, the profitability of these operations has increased sharply.

For the second quarter Suncor's refining operations had an operating margin of 12%, almost triple the 4.5% for the same period in 2014. As a result, Suncor markedly increased its refinery utilization rate for the quarter to 90%, an impressive 5% year over year, thereby refining 6.5% more barrels of crude than it had in the second quarter 2014.

The increased profitability of these operations coupled with higher refining volumes allowed Suncor to offset the diminished profitability of its downstream oil producing business.

Another facet of Suncor's operations that leaves it well positioned to weather the current harsh

operating environment are the low breakeven costs per barrel for its existing oil sands operations.

At about US\$30 per barrel, Suncor's oil sands operations have one of the lowest company-wide breakeven costs in the energy patch. This has allowed those operations to remain profitable despite the collapse in oil. With Suncor ramping up oil sands output by 11% year over year, it was able to benefit from these low breakeven costs.

These strengths will continue to benefit Suncor in the current difficult operating environment and when oil prices eventually rebound. More impressively, and as a sign of confidence in Suncor's ability to weather the current crisis, management hiked its dividend by 3.5%, bringing its yield to a juicy 3%.

### **So what?**

The oil rout has hit the energy patch hard, and while it and the extreme uncertainty surrounding the outlook for oil has made energy stocks unappealing investments, Suncor certainly appears attractive. Not only does it have low breakeven costs and the ability to offset diminishing profitability from its downstream refining operations, but it also has a high degree of liquidity.

These attributes, its juicy dividend yield, and its attractive valuation measures, including an enterprise-value of six times EBITDA, make it an appealing long-term investment at this time.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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