Why You Should Follow in Ray Dalio's Footsteps and Invest in Suncor Energy Inc.

Description

Oil's sharp collapse, pessimistic outlook, and growing concerns that the global supply glut is far from over has unnerved energy investors. This is gradually evolving into fear as the outlook for China, the world's second-largest economy, grows ever darker.

Despite these factors and increasing market volatility, one of the world's greatest money managers, Ray Dalio, has taken the plunge and scooped up over US$23 million of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) shares. It is easy to see why Dalio has taken a substantial position in Suncor despite the gloomy outlook surrounding crude.

Now what?

Suncor, like other integrated energy majors, has been able to profit from the sharp collapse in crude because as oil prices have fallen, its refining margins have increased.

As a result, Suncor has focused on boosting the utilization rates of its refineries which, for the second quarter 2015, were up by 5% year over year. This increased utilization rate allowed Suncor to refine more oil which, when coupled with increased profitability in the refining business, has enabled Suncor to offset some of the earnings lost due to those markedly soft crude prices.

Another reason why Suncor is an attractive investment even in the current harsh operating environment is that its operations have a relatively low breakeven cost per barrel. Its oil sands operations have a breakeven cost of about US$30 per barrel, which means that even in the current harsh operating environment with West Texas Intermediate hovering around US$46 per barrel, they remain profitable.

The breakeven costs per barrel are far higher for its conventional oil output, but with oil sands making up 80% of its total production, this will have little impact on its overall profitability.

It is easy to see the strengths of Suncor's business and just how resilient that business is to the sharp downturn in crude. Management has been able to hike the dividend at the end of the second quarterby almost 4% despite weak crude prices, lower net earnings, and the poor outlook for crude.

When these factors are accounted for, along with its stock plunging by 35% over the last year, leaving it with some attractive valuation metrics, including an enterprise value of seven times EBITDA, it is easy to understand why Dalio has taken the plunge.

So what?

Clearly, Wall Street and institutional investors are anticipating a massive oil rally at some stage in the foreseeable future. This is why many have gone on an acquisition spree, taking positions in high-quality companies that are capable of weathering the current harsh operating environment in good shape.

In fact, Suncor has shown that not only can it weather significantly lower oil prices, but it can even remain profitable in the difficult operating environment we are now witnessing. For these reasons, investors should follow in Ray Dalio's footsteps and acquire Suncor as a long-term investment.

Let's not forget that as you patiently wait for oil prices to recover and Suncor's shares to appreciate, you will be rewarded by regular and sustainable dividend payments with a tasty 3% yield.

CATEGORY

1. Dividend Stocks
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