3 Reasons Why Suncor Energy Inc. Is Undervalued

Description

While others will spend time debating when the oil and gas industry will finally rebound, patient long-term investors can capitalize on short-term expectations driving down quality stocks. **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), for example, is down 20% in the past 12 months despite having a promising future.

Here are the top three reasons to buy Suncor Energy that other investors are ignoring.

Excellent balance sheet

It's no surprise that lower oil and gas prices have absolutely killed low-quality operators. With high costs of production and over-leveraged balance sheets, many debt-ridden companies have seen their stocks plummet by over 75%. Suncor Energy, thankfully, is a bright spot in an otherwise troubled industry.

Suncor Energy's financial position is rated "A-" by Standard & Poor's and "A3" by Moody's for a reason. In the first half of 2015 it generated nearly $800 million in free cash flow. It also has roughly $5 billion in cash as well as a $6.9 billion credit revolver.

In terms of liquidity, Suncor Energy is as good as they come. This should allow the company to easily withstand an extended period of low oil prices, even if it takes years. In the meantime, it can service its existing projects and possibly make an opportune acquisition of a struggling competitor.

Falling production costs are an overlooked benefit

Oil sands are notoriously costly. Not only are extraction costs high, but projects are typically rife with delays and cost overruns. Curiously, not much has been made of Suncor Energy's impressive ability to contain and lower these costs.

For the first half of 2015 the company's cash operating cost was $28 per barrel, down significantly from $35 per barrel in the previous period. In addition to lower operating expenses, volume growth and cost-reduction programs are largely to thank for the condition of the balance sheet.

With a healthy balance sheet ensuring the ability to continue production growth, higher cash margins are yet another boon for an otherwise well-positioned operator.

Big projects are coming online

A few major projects are expected to help production growth in the near future. Not only will this boost volumes, but it also gives Suncor Energy the ability to roll down capital expenditures, even as the top line grows.

For example, its Fort Hills project will deliver its first oil in Q1 2017, with a potential of 73,000 barrels a day of production. Another similarly sized project, in which Suncor Energy has a 22.7% stake, is also likely to come online by the end of 2017.

These projects will allow the company some breathing room in spending needs, as they don't need to continue dedicating further funds to fuel volume growth.

Suncor Energy is primed for success

With an enviable balance sheet, falling costs, and imminent production growth, Suncor Energy is in a rare position. While it's still uncertain what will happen to oil and gas prices over the short term, Suncor Energy is making sure it's able to generate shareholder value over the next three to five years and beyond.

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