3 Reasons Why Suncor Energy Inc. Is Worth Buying Despite Weak Oil Prices

Description

With crude oil prices continuing to hover below $50 a barrel, it's not easy to be bullish on the sector. But not all oil companies are suffering. **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) has raised its dividend, kept its workforce intact, and is considering acquisitions, even as its stock has declined nearly 20% over the past year. Here are three reasons to consider adding Suncor to your diversified portfolio.

Cash in pocket

In a recent speech, Suncor CEO Steve Williams noted the company has $5 billion in excess cash and that the oil price collapse has caused some companies to become distressed, which could lead to "fire sale" prices that didn't exist six months ago.

"We have too much cash on our balance sheet," Williams said. "We've been generating more cash than we anticipated when we put that $5 billion in the bank."

Although the company has no immediate acquisition plans, Williams said the spread between what buyers are willing to pay and what sellers are willing to accept has "narrowed significantly."

"Clearly prices are coming down," Williams said. "Time is on our side in terms of waiting."

Returns to shareholders

Suncor increased its quarterly dividend by one cent per share to $0.29 when it announced its second-quarter results earlier this summer. That means its dividend yield is a healthy 3.34% at a time when many energy companies are reducing their dividends, or even eliminating them entirely.

The company also said it intends to buy back $500 million worth of its own shares.

Low oil prices don't matter (much)

Suncor's focus on cost reduction initiatives has resulted in a decrease in cash operating costs per barrel at its oil sands operations to just $28 a barrel, down from $34 per barrel in the same period last year. “As a result of our continued focus on operational excellence, production at oil sands operations increased by 45,000 barrels per day,” Williams added.

It’s heartening for investors to know that even if oil prices drop below $30 per barrel, which seems unlikely, Suncor will remain profitable.

Suncor’s 2015 capital expenditures have been reduced by $400 million to a range of $5.8-6.4 billion as a result of the energy company’s focus on capital discipline and cost reduction. Quality energy stocks are hard to find during the current oil price downturn. Don’t let this one get away.

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