



How Investors Should React to Suncor Energy Inc.'s Big Purchase

Description

On Monday morning, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) announced it had bought an additional 10% stake in the Fort Hills oil sands project from Total E&P Canada Ltd. for \$310 million. The transaction increases Suncor's stake in Fort Hills to 50.8%, and lowers Total's interest to 29.2%. **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) owns the final 20%.

We take a look at three key consequences from this move below.

1. You should expect more purchases from Suncor

The oil rout has put a lot of companies in a very precarious position. And in these kinds of situations, normally you'd expect to see a lot of consolidation as stronger companies scoop up the weaker players. Suncor would certainly play the role of a consolidator; not only is it the largest energy producer in Canada, but the company has an outstanding balance sheet.

But before Monday morning, there had only been a trickle of deals, with none from Suncor.

There were a couple of reasons for such inactivity. First of all, weaker producers have held out hope that oil prices will recover. Secondly, stronger players are expecting assets to become even cheaper as the weak companies continue getting squeezed.

Now that Suncor has acted, you should expect more deals to come. The company is clearly bullish on oil prices, since Fort Hills has very marginal economics. And with more oil companies facing pressure to sell assets, Suncor should find plenty of opportunities it deems attractive.

2. Bad news for Teck Resources

Teck's shareholders have had little to cheer about over the past four years, and Monday's announcement brought yet more disappointment.

To set proper context, low commodity prices have put enormous pressure on Teck's balance sheet. The company has had to slash its dividend in response and, more recently, Moody's downgraded

Teck's debt rating into "junk" territory.

This is hardly the time for Teck to be spending billions of dollars on an oil sands project. So, there were undoubtedly many shareholders who hoped Teck would be the one to sell its stake to Suncor.

Making matters worse, the purchase price seems very low, valuing the Fort Hills project at \$3.1 billion. It's far less than what Teck paid to be part of the project, even though development has progressed considerably in the meantime.

3. You should expect low oil prices to remain

Fort Hills is a perfect illustration of why low oil prices will remain for a long time.

The project may be expensive, and may be uneconomic at current oil prices, but construction has progressed so far that it's too late to turn back right now. Furthermore, Suncor's optimism about future prices means that now is the time to invest in new projects.

There are other projects like Fort Hills, and they will add further capacity to an oil market that's already oversupplied. So, if you're betting on an oil price rebound, you may want to reconsider your strategy.

CATEGORY

1. Energy Stocks
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