



Does Suncor Energy Inc. Deserve to Be a Top Energy Pick?

Description

The bloodbath in the energy sector is absolutely mind blowing, especially when we consider how fast it has happened.

Many companies are looking at 12-month haircuts of 80-90%, and some of those names were once revered as the go-to stocks in the sector.

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) has held up much better than its peers, and investors are wondering if the company really deserves to be placed on such a high pedestal.

Let's take a look at Suncor to see if it warrants a spot in your portfolio right now.

Integrated model

Suncor's resilience is attributable to its diversified business model. The company is primarily known for being an oil sands giant, but Suncor also has significant midstream and downstream operations that provide a great revenue hedge against weak oil prices.

The company operates four large refineries that take crude oil feed stock and process it into end products such as gasoline, diesel fuel, asphalt, and lubricants.

As oil prices fall, the input costs for the refineries come down, and depending on the "crack spread", or differential between the WTI-based input cost and Brent-based output product, the margins can be quite juicy.

One item to watch for in the coming year is the reversal of **Enbridge's** Line 9 pipeline. The project has been delayed several times, but it should be good to go sometime in 2016, and that will be a great benefit to Suncor's refining business.

Why?

Suncor is currently sending western Canadian oil by train to its Montreal refinery. Once Line 9 is

operational, most of the feed stock can be shipped through the pipeline, and that will lower the input cost.

Suncor also operates about 1,500 Petro-Canada service stations. Gasoline prices normally drop when oil prices fall, and that tends to entice people to take more road trips and buy vehicles with bigger engines.

How important is the refining and marketing business?

Suncor reported Q2 2015 operating earnings of \$906 million. The refining and marketing group accounted for \$631 million of that total.

Growth opportunities?

Suncor has about \$5 billion in cash that is just burning a hole in CEO Steve Williams's pocket. It's an enviable situation to be in, and investors are already seeing management start to pick off assets at discounted prices.

The company just increased its stake in the Fort Hills oil sands project to nearly 51% by paying \$310 million for an additional 10% of the pie owned by **Total E&P**, which remains the second-largest partner on the project.

More deals are sure to follow.

Dividend

Suncor just increased its quarterly dividend by a penny to \$0.29 per share, a move that shocked investors and sent a message to the market that the company is doing just fine.

The distribution yield is 3.3%.

Should you buy Suncor?

At 28 times forward earnings the shares certainly aren't cheap, but the company is not a bankruptcy candidate either, which can't be said for some of its former high-flying peers. If you believe in the long-term oil story, Suncor is a safe way to play the rebound, and you get a nice yield while you wait for better times.

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2. Investing

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