



3 Reasons Suncor Energy Inc. Does Not Mind if Oil Falls Further

Description

After nearly reaching US\$50 per barrel less than two weeks ago, oil is once again in decline. And there's no end in sight.

Of course, this is bad news for Canada's major oil companies, many of which are stretched financially. But there's one notable exception to this rule: **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). There's an argument that Suncor doesn't even mind lower energy prices, at least in the short term. Below are three reasons why.

1. A nice cushion

While many of Suncor's peers are struggling, the energy giant is much more immune in a couple of ways.

First of all, Suncor has a relatively clean balance sheet. Its \$9.2 billion in net debt, which is only 22% of the company's equity. By comparison, this number is roughly 60% at troubled producer **Baytex Energy Corp.** ([TSX:BTE](#))([NYSE:BTE](#)).

Secondly, Suncor has a big downstream business, which mainly consists of the Petro-Canada gas stations. Gas stations usually benefit from falling oil prices, since gasoline prices tend not to fall as quickly as oil, which helps margins. To illustrate, Suncor's downstream business doubled operating profits in the second quarter on a year-over-year basis.

2. Lower costs

The lower oil-price environment has helped all producers reduce operating costs, and Suncor is no exception. In the second quarter, cash operating costs per barrel dropped by 18% in its oil sands operations.

This should surprise no one. As producers cut back on drilling, prices for equipment and labour naturally fall. This is especially helpful for Suncor because it is developing the Fort Hills oil sands project, an operation that normally would be very expensive.

So, Suncor wouldn't mind seeing low oil prices, at least while Fort Hills is being developed.

3. More opportunities

Low oil prices have had a much bigger impact on Suncor's peers, and this has battered their share prices, thus giving Suncor the opportunity to make some relatively cheap acquisitions. And that's exactly what the company's trying to do with its bid for **Canadian Oil Sands Ltd.** (TSX:COS).

If oil prices sink further, then COS's shareholders would be more inclined to accept Suncor's offer. And other energy producers will see their share prices tank as well. All of this plays right into Suncor's hands.

So, if you're a Suncor shareholder, you don't need to worry too much about falling oil prices. And if you're looking for a way to bet on oil, you may want to look elsewhere.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
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