



Suncor Energy Inc. Beats Q3 Earnings Estimates: Should You Buy Now?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)), Canada's largest integrated oil and gas company, announced better-than-expected third-quarter earnings results after the market closed on October 28, and its stock has responded by rising over 3%. Let's take a closer look at the results to determine if the rally can continue and if we should be long-term buyers of the stock today.

The results that blew past expectations

Here's a summary of Suncor's third-quarter earnings results compared with what analysts had anticipated and its results in the same period a year ago.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Operating Earnings Per Share	\$0.28	\$0.18	\$0.89
Revenues	\$7.56 billion	\$6.90 billion	\$10.27 billion

Source: Thomson Reuters Corp.

Suncor's operating earnings per share decreased 68.5% and its revenues decreased 26.4% compared with the third quarter of fiscal 2014.

The company noted that these year-over-year declines could be attributed to "the lower upstream crude oil price environment," which led to its average realized price per barrel decreasing 46.4% to \$47.93 in its oil sands segment, and this could only be partially offset by increased production, a favourable downstream pricing environment, and lower operating expenses.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Operating earnings decreased 68.6% to \$410 million
2. Refined product sales decreased 0.1% to 546,400 barrels per day
3. Refinery crude oil processed increased 2.1% to 444,800 barrels per day

4. Utilization of refining capacity improved 200 basis points to 96%
5. Total production increased 9% to 566,100 barrels of oil equivalent per day
6. Production increased 3.9% to 458,400 barrels per day in its oil sands segment
7. Production increased 37.7% to 107,700 barrels of oil equivalent per day in its exploration & production segment
8. Suncor's share of Syncrude production decreased 4.4% to 28,100 barrels per day
9. Cash operating costs per barrel decreased 13.2% to \$27.00 in its oil sands segment
10. Cash flow from operations decreased 17.5% to \$1.88 billion

Can the rally continue and should you buy shares today?

The third quarter was a great success for Suncor given the steep decline in oil prices over the last year, so I think its stock has responded correctly by moving higher. I also think this could be the start of a sustained rally higher and Foolish investors should buy the stock today.

First, Suncor's stock still trades at just 25.8 times fiscal 2015's estimated earnings per share of \$1.50 and only 23.1 times fiscal 2016's estimated earnings per share of \$1.68, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 41.4 and its industry average multiple of 45.6.

Second, Suncor pays a quarterly dividend of \$0.29 per share, or \$1.16 per share annually, giving its stock a 3% yield, and this is well above the industry average yield of 2.2%. It is also very important for investors to note that it has raised its dividend for 13 consecutive years, and its ample cash flow from operations, including \$5.51 billion in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

Third, Suncor has been repurchasing its shares, including the repurchase of 1.16 million shares of its common stock in the third quarter for a total cost of approximately \$40 million, and this is only the beginning of its \$500 million share-repurchase program that kicked off in August 2015 and will run through August 2016. These repurchases will help boost the company's earnings-per-share growth going forward and will make its remaining shares more valuable, both of which increases shareholder value.

With all of the information above in mind, I think Suncor Energy represents one of the best investment opportunities in the energy sector today. Foolish investors should strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Energy Stocks
2. Investing

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