



Why Suncor Energy Inc. Will Remain King of the Oil Sands

Description

Despite the sharp collapse in oil prices, Canada's largest integrated energy major **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) continues to go from strength to strength. Even with oil prices at their lowest level since the global financial crisis and with many energy companies struggling to remain cash flow positive, Suncor continues to report solid financial results.

I don't expect this to end any time soon.

Now what?

Suncor's third-quarter results beat expectations with operating earnings exceeding analysts' estimates by 55% to be \$0.28 per share. Despite posting an overall net loss of \$0.26 per share, this is an impressive result.

More impressive is that Suncor was able to reduce its oil sands operating costs to \$27 per barrel, the lowest level since 2007, and this is despite planned maintenance. With oil sands contributing around 80% of Suncor's total production, this will ensure that its operations remain profitable, even if the price of crude remains weak for a sustained period.

Another important aspect of Suncor's business is its downstream or refining operations. Lower crude prices allow its downstream business to generate higher margins and, as a result, Suncor has focused on boosting the utilization rate of its refineries. For the third quarter it reported a utilization rate of 96%.

As a result of this increased utilization rate and weak crude prices, net earnings from its refining business shot up a very healthy 43% year over year. This helped to offset the \$51 million loss from its upstream operations.

However, while all of these aspects are important, what matters the most is that Suncor is focused on taking advantage of the collapse in crude prices. Suncor has amassed a war chest of just over \$5 billion in cash that it intends to use for acquisitions.

You see, a range of oil assets are trading at bargain prices, well below their valuation from a year and

a half ago when oil was trading at over US\$100 per barrel.

Suncor has already snapped up an additional 10% in the Fort Hills oil sands project from partner **Total SA** for less than its market value.

It has also made a low ball takeover bid for **Canadian Oil Sands Ltd.**, and while the offer has been rebuffed as being inadequate, there are plenty of other distressed assets available for sale. There is also the opportunity of making a higher offer for Canadian Oil Sands, and this certainly makes sense because Suncor holds a 13% interest in the Syncrude project.

By acquiring Canadian Oil Sands, this interest will increase to 49% and give Suncor the ability to institute changes to an operation that has been bedeviled by production outages and cost blowouts in recent years.

So what?

Suncor not only shapes up as being able to successfully weather the current harsh operating environment, but it will emerge as one of the best-placed energy companies to take advantage of the inevitable rebound in crude. This is because its solid balance sheet and deep pockets means that it can take advantage of distressed asset prices and acquire a range of oil sands assets at bargain prices.

CATEGORY

1. Energy Stocks
2. Investing

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