Suncor Energy Inc.: The Year in Review for 2015

Description

As oil prices continued to languish in 2015, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) stood out for its ability to weather the storm. As a result, Suncor's share price has declined by just 4% during the year, while the **iShares S&P/TSX Capped Energy Index ETF** declined by 25%. And since Suncor accounts for over 20% of that ETF's holdings, the difference between the company and its peers is that much greater.

In fact, Suncor has been such an outperformer that CEO Steve Williams was named CEO of the year by *Report on Business Magazine*.

Staying afloat while others sink

There are a few reasons why Suncor has been so successful this year. First of all, the company has been very adept at cutting expenses. To illustrate, "oil sands operations cash operating costs per barrel" decreased to $27.00 in the most recent quarter, and that's more than 20% below 2014's figure.

Granted, all of Canada's energy companies have been able to reduce costs. But there are a couple of other things that separate Suncor from its peers: its balance sheet and its downstream operations. The balance sheet in particular has been a source of strength. At the beginning of 2014, Suncor's debt was equal to less than a quarter of its total capitalization. This ratio was well over 100% for many of the company's peers.

The downstream operations, which mainly consist of the Petro-Canada gas stations, have also been very advantageous. Not only do they provide a source of diversification, but they have been thriving in the low oil-price environment. In the most recent quarter, Suncor's downstream business earned over $600 million in operating income, an increase of more than 40% year over year. Other oil producers simply don't have this luxury.

Buying while others are selling

The oil slump has prompted numerous analysts to predict a wave of consolidation, with Suncor being one of the chief buyers. For most of the year though, this didn't happen. Many of the weaker producers were more willing to fight for survival than sell out, while stronger producers like Suncor were simply being patient.

That all changed in early October when Suncor made a $4.3 billion unsolicited offer for **Canadian Oil Sands Ltd.** (TSX:COS). The bid was called “opportunistic” by Canadian Oil Sands CEO Ryan Kubik, and he says that Canadian Oil Sands would be better off as an independent company.

We’ll have to wait until the new year to see how this turns out. But since Suncor made its bid, oil prices have continued to venture south. That makes the bid more appealing for Canadian Oil Sands and calls into question just how valuable the new asset will be to Suncor.

To make a long story short, Suncor has firmly cemented itself as the strongest player in a weakened sector. That status is unlikely to change in 2016.

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