



Suncor Energy Inc.: Is it Finally Time to Buy This Stock?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) defied gravity for most of the past year, but a recent capitulation has investors wondering if it is finally time to step in and buy the stock.

Let's take a look at Suncor to see if it deserves to be in your portfolio.

Acquisitions

Suncor recently reached an agreement to buy **Canadian Oil Sands Ltd.**

After several months of bad mouthing from both sides of the table the two companies appear to have found a happy medium. Suncor is raising its offer from 0.25 of a Suncor share for every Canadian Oil Sands share to 0.28 of a Suncor share. The purchases price works out to be about \$6.6 billion once you add in the Canadian Oil Sands debt. Suncor is looking to secure 51% of the outstanding stock before the February 5 deadline.

The deal boosts Suncor's stake in the Syncrude oil project from 12% to 49%. Syncrude has been plagued by high costs and low production, but Suncor has a long-term plan for the asset, and the resource base at Syncrude made the opportunity too tempting to ignore.

When WTI oil dropped below US\$30, Suncor's investors were probably wondering if the company was offering too much. The recent bounce in oil is likely to set those concerns aside.

This is Suncor's second oil sands purchase in recent months. The company also acquired an additional 10% stake in the Fort Hills oil sands development from partner **Total E&P Canada**. That deal closed in November.

Are more acquisitions on the way?

Suncor finished Q3 2015 with \$5.4 billion in cash and cash equivalents. That's quite the war chest to have when the oil industry is littered with battered and bruised companies sitting on significant and attractive resources. Once the Canadian Oil Sands deal gets wrapped up, I suspect Suncor will move

on to its next target.

Oil prices might remain under pressure in the near term, but Suncor's shareholders are probably going to be happy campers five years from now.

Integrated business

Suncor is primarily known for being an oil sands producer, but the company also operates four large refineries and owns a network of about 1,500 Petro-Canada service stations.

The diversified revenue stream is the main reason the stock has held up so well during the oil rout. As oil prices fall, refineries benefit from lower feedstock costs, and that can produce nice margins on the end products when market conditions are favourable.

Lower oil prices also tend to translate into lower prices for gasoline. This often spurs more driving, and that is good for the retail business.

Dividend safety

Suncor pays a quarterly dividend of \$0.29 per share that yields about 3.7%. The distribution should be safe, although investors probably won't see much growth in 2016.

Should you buy?

Suncor will not only survive the oil rout, but it is likely to emerge as a much larger and stronger firm. If you believe oil prices are finally finding a bottom, this is probably a good time to start a position in the stock. It's not very often that investors get a chance to buy Suncor for \$30 per share.

CATEGORY

1. Energy Stocks
2. Investing

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