



## What Suncor Energy Inc. Has to Say About Oil Prices

### Description

There is a lot of doom and gloom in the Canadian energy sector right now given how deeply low oil prices have hurt the industry over the past year. Many are wondering what's next for the sector and if its glory days are in the rear view mirror. That was a topic that **Suncor Energy Inc.'s** ([TSX:SU](#))([NYSE:SU](#)) CEO Steve Williams addressed during his company's recent fourth-quarter conference call.

Here's what he had to say about the future of the sector and where oil prices are heading.

### We're still a growth industry

Williams was asked by an analyst what he thought about the Canadian oil sands industry on a macro level. In particular, is it still a growth industry or not? To that, Williams responded:

So I have no doubt that Canadian oil sands [production] will grow because there are major capital investments in flight that will be completed and it makes absolute sense to complete those for a couple of reasons. One, these are very long-life assets and we're viewing them over the life of the project. The other one from a pure execution point of view is this is a very productive time to be investing and to be spending that money because we are getting good productivity and very good quality results from the construction in the field as we speak. So I think you will see growth in the short to medium term.

Williams pointed out that there are already enough projects under construction to grow production in the short term, irrespective of what the price of crude does. These projects were all set in motion before crude crashed, and it didn't make sense to stop working on them because prices fell.

Not only are these long-life projects that will produce for decades, but costs have fallen, making this the best time to invest in long-term projects.

In other words, the rumours of the death of oil production growth in Canada have been greatly exaggerated.

## Here's our long-term oil-price target

While short-term growth in the oil sands is already baked in due to the long-term nature of oil sands projects, which take years to build, higher oil prices are required to fuel long-term growth. That said, because of cost reductions, the industry doesn't need a return to triple-digit oil in order for the economics to work. Instead, Williams pointed out:

The mid to longer term then is a different period and a different question because that depends very much on ... the long-term view of crude ... the longer-term growth will depend on pricing. Our view of pricing is that through multiple cycles this will come back up to the supply for cost which we view through that period to be somewhere in the \$70 to that \$90 rate. So, more optimistic about the long term, it's [just] a question of when the long term actually arrives.

In other words, in order for new oil sands projects to be sanctioned, producers need to be comfortable with crude oil's likelihood to move up to the long-term cost of supply, which Williams sees being in the \$70-90 per barrel range.

Obviously, that's a long way from where crude prices are now, but it is where Williams sees oil eventually heading because that's what it will take for new oil sands projects and other major projects (like deepwater drilling projects) to be given the green light. That price recovery won't happen overnight, but it will eventually occur because oil demand continues to steadily grow.

As such, new supplies will need to be brought online not only to meet that growth, but to replace depleting supplies from legacy oil basins.

## Investor takeaway

Suncor Energy's CEO doesn't believe the Canadian energy sector is dying a slow death. On the contrary, he sees growth in the short term due to projects currently under construction and long-term growth on the horizon when oil prices undoubtedly improve.

It's why Williams's company continues to invest during the downturn, because he sees better days ahead, even if he's not exactly sure when that future will arrive.

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