



Suncor Energy Inc. Is Already Hinting at What it Might Buy Next

Description

While most of its peers have just been trying to survive the oil market downturn, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) has been aggressively taking advantage of the situation. It has already won control of Canadian Oil Sands, which boosted its stake in Syncrude from 12% to 49%, while buying another 10% stake in its Fort Hills oil sands project from **Total** (NYSE:TOT), bringing its stake in that project up to 50%.

However, with a cash-rich balance sheet and a relatively stable stock price, it's on the lookout for its next acquisition target. Here's what Suncor would like to buy next.

Buying more of what you know

Famed investor Peter Lynch is known for saying, "The best stock to buy may be the one you already own."

It's an approach that Suncor has taken to heart over the past year by investing to increase its stake in two projects it already owns and knows well. It's a path the company would like to stay focused on according to CFO Alister Cowen. In a recent interview, he said that Suncor "continue[s] to look at M&A opportunities." He noted specifically that "if there are opportunities to buy more of Syncrude at the right price, we would be interested. Same for Fort Hills."

Given that it only currently owns a roughly 50% stake in both assets, there's ample opportunity for it to grow its stake. In Syncrude, for example, five other partners hold the remaining stake in the partnership.

While any of those five partners could sell, the most likely would seem be **Murphy Oil Corporation** ([NYSE:MUR](#)), which only owns a 5% stake in Syncrude. Further, it's not a strategic asset for Murphy Oil, which is focusing most of its attention on North American onshore unconventional assets like the Eagle Ford Shale, Montney, and Duvernay plays.

Meanwhile, both of its Fort Hills partners, Total and **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) could be willing to sell their stakes. Not only are they on the hook for huge capex requirements over the next two years, but Fort Hills won't start paying off until the end of next year.

Total has already stated that it wants to cut its capex requirement and has already sold 10% of its stake to Suncor. Meanwhile, Teck Resources has been battered on all sides with both its coal and its copper businesses being hurt by the downturn in the commodities market, leaving it with less cash flow to invest in an expensive long-term growth project like Fort Hills.

Filling the gap

While Suncor's preference is to buy what it already knows, it could also seek projects that will fill a looming gap.

Currently, Suncor has two major growth projects, Fort Hills and Hebron, that are expected to deliver first oil by the end of next year. However, because of the long lead time of oil sands and offshore projects, it has nothing else in the pipeline that's capable of delivering first oil in the back half of this decade because it has deferred these projects. As such, there's a growing gap between when these projects start up and when Suncor can start growing again.

One option it has is to buy growth by focusing on projects that could come online in the 2018-2020 time frame. For example, investing in shorter-cycle modular projects like **Cenovus Energy Inc.'s** ([TSX:CVE](#))([NYSE:CVE](#)) Christina Lake and Foster Creek developments, which are SAGD oil sands projects being developed in multiple phases, is a potential possibility.

Both Cenovus Energy and its partner **ConocoPhillips** ([NYSE:COP](#)) have pressed pause on phases where construction was not well underway due to weak oil prices and cash flow crunches. As such, acquiring a company that has built-in mid-cycle growth opportunities like Cenovus Energy or seeking to buy ConocoPhillips's stake in these projects might make a lot of sense because it could fill a key gap in Suncor's growth pipeline.

Investor takeaway

Suncor plans to continue to be an aggressive acquirer during the downturn. Ideally, it would like to buy what it already knows and boost its stakes in both Syncrude and Fort Hills. However, it also faces a big growth gap due to the long lead time of the projects it tends to develop. It could fill these gaps by acquiring assets that have the potential to grow when Suncor needs it the most.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:COP (ConocoPhillips)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TECK (Teck Resources Limited)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:SU (Suncor Energy Inc.)
6. TSX:TECK.B (Teck Resources Limited)

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/15

Date Created

2016/04/18

Author

mdilallo

default watermark

default watermark