



Suncor Energy Inc. Is How You Should Invest in Oil

Description

When times are great, small, speculative companies are sometimes a great way to make insane amounts of money. It's not hard for a company with a \$500 million market cap to quickly double or triple for speculative reasons. However, when times are rough, it helps to refocus and invest in quality companies. In the oil sector, that company is **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

Suncor is one of the most diversified energy companies in Canada. Not only does it get oil out of the ground, but it refines it as well, allowing it to generate revenue on both sides of the equation. It's actually the refinery business that has helped Suncor remain strong despite plummeting oil prices. Its network has the capacity to refine 500,000 barrels a day, and last year it earned \$2.2 billion.

Unlike the small speculative companies that used leverage to fund their operations and make acquisitions, Suncor only has about 34% of its market cap in debt. While that's \$15 billion, I believe Suncor can more than handle it.

Part of the reason it can afford this debt is because it is one of the lowest-cost producers in Canada. In 2013 its total oil sands cash operating cost was \$37.00 a barrel. A year later, it had reduced that to \$33.80. And by 2015, that cost was down to \$27.85. Fundamentally, it is spending less per barrel it takes out of the ground, and as the price of oil increases, its margins will follow.

But the real reason why I like Suncor is because it is the biggest. And when you're the biggest, you can buy up the best assets from smaller companies and, more importantly, companies that are struggling. Those same speculative companies that can double or triple often have bought lots of assets, but can't afford the debt payments. Suncor can. And Suncor has its eyes on all sorts of assets.

It bought control of Canadian Oil Sands, which helped boost its stake in Syncrude from 12% to 49%. On Wednesday, it was reported that it had bought a further 5% stake in Syncrude for US\$937 million, effectively giving it control of the project. Suncor expects to be able to grow production in a profitable way by more than 40% year over year. By 2019, it wants to hit its target of 800,000 barrels per day.

I doubt that it's going to stop there ... Some of the largest mergers of oil companies have taken place during times of weak oil prices. Therefore, if the price stays depressed, I expect other oil companies to

continue suffering, thus increasing the types of assets Suncor can buy. I expect that it will likely buy a larger share of its Fort Hills oil sands project over the coming months, especially with its partners in need of cash.

All in all, Suncor is the best way to invest in oil. You won't double or triple your money. But because Suncor is well run and its management is so experienced, I expect this company to be able to keep its costs down and acquire competitors, so when oil prices return to strength, the returns will be incredibly lucrative for investors.

And while you wait, you can enjoy the 3.2% yield which pays \$0.29 per quarter. The time may come one day when you can buy more speculative energy companies, but that is not today.

CATEGORY

1. Energy Stocks
2. Investing

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