Why Is Suncor Energy Inc. Performing So Well?

Description

The price of oil is down 65.4% in the past five years, but shareholders of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) haven't felt nearly as much pain. Over the same time period, shares are down just 13.4%.

Why is Suncor performing so well? There are two primary reasons: its access to capital and diversified revenue streams.

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Access to capital

Suncor's long-term debt stands at roughly $15 billion, up from just $9 billion in 2012. While that may seem sizable, it pales in comparison to the company's $58 billion market cap, not to mention its $3.1 billion in cash and $6.8 billion in available credit lines. Less than 50% of its long-term is due within the next 10 years, so relative to its industry, Suncor is incredibly well financed.

Having excess capital is a huge advantage during an industry downturn. Whereas competitors have needed to sell assets at fire-sale prices to stay afloat, Suncor has been able to scoop up multiple projects at attractive discounts.

For example, this year it finalized its $6.6 billion acquisition of Canadian Oil Sands Ltd., giving it a 59% stake in the Syncrude oil sands project. The final purchase price was over 50% less than Canadian Oil Sands's trading price in 2014. The deal was the epitome of opportunistic buying, expanding Suncor's stake in an asset it already knows well, all at a decade-low price.

Last year, Suncor also boosted its share of the Fort Hills project, a 180,000 bpd oil sands facility set for completion in 2017. Suncor now owns over 50% of the project. According to the company's CFO Alister Cowan, investors can expect Suncor to aggressively go after new deals. "We continue to look at M&A opportunities. If there are opportunities to buy more of Syncrude at the right price, we would be interested. Same for Fort Hills."

After its latest acquisitions, Suncor is set to become Canada's largest integrated oil and gas company with production ramping up to 800,000 bpd by 2020 from just 578,000 bpd last year.

Diversified business streams

In addition to its impressive upstream assets, Suncor can rely on its diversified business model to keep it afloat until oil rebounds. Its refining business, which typically increases its profits when oil falls, posted earnings last year of $2.2 billion, more than offsetting the $111 million operating loss in its oil sands business.

The company remains one of North America's largest refiners with the capacity to process nearly 500,000 barrels of crude per day. It's likely the refinery arm that's attracted big-time investors like Warren Buffett, who owns over $1 billion in Suncor shares.

Positioned for the long term

Suncor isn't as attractively priced as other beaten-down competitors, but its historical success and proven management team likely warrants the valuation premium. If you're looking to boost your energy exposure, Suncor is a great place to start.

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2. Investing

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