Suncor Energy Inc. Keeps Getting Bigger on Cheap Oil

Description

During every major oil downturn, we see a lot of activity take place where big companies buy little companies and, in some instances, two giant companies merge to become a behemoth. During the most recent downturn, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) has been taking advantage of low prices to pick up overleveraged, quality assets.

Its first big acquisition was a hostile takeover of Canadian Oil Sands. It paid $4.2 billion for the company and assumed $2.4 billion of the company's debt. However, what Suncor gained by making this acquisition is a much larger exposure to the Syncrude project; it went from 12% exposure to 49%.

At the end of April, it bought a further 5% from **Murphy Oil** for $937 million, giving Suncor a majority stake of the project; however, it doesn't expect to take control of the operation because **Imperial Oil Limited** has been running it efficiently thus far.

Syncrude will kick off 350,000 barrels per day with Suncor taking 54% of that for itself. Further, Suncor has been expanding its exposure at its Fort Hills development to 50.8%, giving it the majority of the 180,000 daily barrels per day.

While Suncor hasn't announced other acquisitions, the CFO alluded to the company's hunger to acquire other assets, in particular at Syncrude and Fort Hills. The reason is that the company wants to produce 800,000 barrels a day by 2019, up 40% from last year, which would give it a greater market share in the oil market.

This should excite investors because there are expectations that the price of oil is going to increase in the coming years. The reason for this is because a lot of projects have had to shut down over the past couple of years because companies can't afford to keep them running. When there is a drop in production and demand stays constant or increases, the price can only go up.

Therefore, if Suncor owns a greater percentage of the available oil, it can earn significant profits.

Suncor happens to be one of the highest quality oil companies on the market. Because of where oil prices are, the company has been focusing on decreasing the average cost per barrel it pays to get oil out of the ground. In 2013 its cash operating cost was $37. By 2014, it reduced that to $33.80. And finally, that number dropped to $27.85 per barrel in 2015.

If the company can keep its costs this low going forward and continue acquiring greater amounts of daily oil, the company should expect to have even stronger earnings toward the end of the decade.

Ultimately, Suncor is probably the best company to buy in the oil space. While it is not incredibly speculative and won't see huge price changes quickly, the company is secure. And while you wait for the price of oil to continue rising, you can enjoy the 3.49% yield with $1.16 distributed per year.

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1. Editor's Choice

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