

# Raging Wildfires: What's Happening to Suncor Energy Inc.?

## Description

Since 2009, shares of **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) haven't been that correlated to oil markets. After a steep drop following the oil-price collapse in 2008, the stock failed to rebound strongly when oil returned to \$100 a barrel. Afterwards, shares hardly budged when oil dropped 50% starting in 2014. Recently, when oil prices surged from US\$30 a barrel to nearly US\$50 a barrel, the company's stock barely moved.

What's going on?

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## Unique headwinds

While some oil producers have seen massive reversals in the wake of rising oil prices, most Canadian oil sands producers have been forced to idle production due to wildfires that have swept the region.

According to *Bloomberg*, "More than one million barrels a day of output was taken offline by a wildfire that's ravaged the region since the start of May. More than 80,000 people fled the inferno from Fort McMurray and surrounding communities initially, and another 8,000 workers were forced to clear out earlier in the week as flames turned back north of Fort McMurray, thwarting work on resuming operations."

Suncor had to shut down its operations twice, including its Base, MacKay River, and Firebag facilities. The company's Base project has output of 350,000 barrels a day, more than any other oil sands mine. The MacKay River and Firebag facilities have a combined output of nearly 240,000 barrels a day.

Wildfires have also idled production at Syncrude, of which Suncor has a growing stake. Following two acquisitions this year, the company controls more than 50% of the project. While the fires haven't damaged the company's assets, a full restart is taking some time.

"We continue to prepare for a staged restart of our operations," Sneh Seetal, a Suncor spokeswoman, said in an email late last week. "Due to the dynamics of the situation, a timeline for the safe restart of production is not currently available."

## Will things turn around?

Fortunately, wildfires only temporarily impair output, assuming they don't damage existing infrastructure. Long term, will Suncor shares rebound alongside other oil-producing peers?

In the coming years, Suncor's share price should move based on the health of Canada's oil sands. Last year it bought a 10% stake from **Total SA** for \$310 million, expanding its interest in the Fort Hills oil sands mining operation to 51%. This project should increase Suncor's output by 91,000 barrels a day. Earlier in 2016, Suncor increased its stake in Syncrude from 12% to 54% following

nearly \$8 billion in acquisitions.

Today, Suncor controls almost 30% of Canada's oil sands production capacity. While it remains well capitalized, including \$3.1 billion in cash and \$6.8 billion in committed credit lines, Suncor's management team is clearly betting on an ultimate rebalancing of oil markets. Shares remain an option only for strong energy bulls.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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