Why Suncor Energy Inc. Is the Oil Company for Future Growth

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) announced this month the intention to sell 71.5 million shares, which will bring in $2.5 billion for the company. Depending on interest from the market, this figure could still balloon up to $2.9 billion.

Suncor announced that the proceeds from the sale will be used primarily for debt reduction and boosting the company's share in the Syncrude project. The $2.5 billion Suncor will get for the 71.5 million shares will be more than enough to buy out another partner to boost its share; it will still have enough to pay down the company's debt as planned. By doing so, Suncor will keep the war chest adequately funded for other opportunities should they arise.

Let's take a look at what the company has in store for the injection of funds.

An increased stake in Syncrude

The value that Suncor sees in the Syncrude venture is no secret. The 50-year venture includes a mix of the largest oil companies in the country. Collectively, the project accounts for 13% of Canada's consumption, or roughly 350,000 barrels per day, but this figure could be boosted even higher.

Suncor's acquisition of Canadian Oil Sands increased the company's control of the Syncrude project, making it the largest single player in the venture, but Suncor still wants a bigger portion, which is where the proceeds of the stock sale come into play.

Earlier this year, Suncor announced the intent to buy **Murphy Oil Corp.'s** stake in the Syncrude venture for $937 million. Murphy's share of the venture amounts to 5%, whereas Suncor's share, including Canadian Oil Sands's share, amounts to 49%.

What does this mean for the oil industry?

Over the short term, there will be little to any change. Much of the industry is still reeling in the aftereffects of the devastating fire in the Fort McMurray region.

During the peak of the fire, production dropped nearly 1.4 million barrels per day. The impact of this was upwards of $1 billion to Suncor's bottom line for the quarter.

Suncor stated that production will more than likely not resume back to normal levels until later this month. Refinery feedstock was also damaged in the fire, which resulted in an outage at the Edmonton refinery.

Suncor still isn't done shopping

One of the most interesting notes from Suncor's statements alluded to the possibility of further acquisitions, making note of "opportunistic growth transactions that Suncor may identify in the future."

While this is open to interpretation, Suncor has already increased its share of the Fort Hills oil sands operation. Fort Hills is widely regarded as one of the largest undeveloped oil sand assets in the region north of Fort McMurray.

The company bought 10% of the project last fall, and it wouldn't be out of the question for another purchase to be on the horizon to boost interest in that project further.

During the drop in oil prices over the past two years, Suncor has made the necessary changes to become one of the most efficient companies in the sector with costs averaging $27 per barrel–well above the current market price. This gives Suncor an advantage over less-efficient companies, whereby Suncor can swoop in, take control, and implement the same efficiencies that it already has in place. This process has worked well so far and seems likely to continue for the foreseeable future.

For investors, this makes Suncor a great investment to have. The company is constantly seeking out ways to grow and remains focused on staying efficient.

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