



## Suncor Energy Inc. Is Gearing Up for More Deals

### Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) entered the oil market downturn with a very strong balance sheet, which it has used to its advantage over the past year. Not only has the company had the cash to continue to fund its major growth projects, but it has gone on the offensive and made several acquisitions.

While all of this spending has had an impact on the company's balance sheet, it hasn't satiated its appetite for deal making, which is why it's seeking to raise billions of dollars to replenish its cash position.

### Going back to the well

Last week Suncor announced that it is seeking to raise up to \$2.5 billion via an equity offering. Initially, that cash will be used to fund its \$937 million purchase of **Murphy Oil's** 5% stake in Syncrude; the rest of the cash will be used to cut its debt.

While the company's debt isn't a concern, it did take on some incremental debt by acquiring Canadian Oil Sands. Further, wildfires burned through an estimated \$1 billion of its cash flow after the company needed to shut down several of its facilities, which left it with less liquidity than it would have liked.

Suncor has been using its balance sheet a lot lately, so the company could use a cash infusion to restock its balance sheet. Having said that, the company made it clear in the statement when announcing the equity offering that the proceeds may also be used for "opportunistic growth transactions." That implies additional acquisitions.

### What might Suncor buy next?

Suncor hasn't only made it clear that it's interested in more deals, but it has also clarified what it wants to buy. That was revealed shortly after wrapping up its \$6 billion acquisition of Canadian Oil Sands earlier this year. Suncor CFO Alister Cowan said that the company was interested in additional acquisition opportunities. Specifically, Cowan said, "If there are opportunities to buy more of Syncrude at the right price, we would be interested. Same for Fort Hills."

The company almost immediately acted on its desire to acquire a greater share in Syncrude by announcing the acquisition of Murphy Oil's stake in the facility. That deal will boost Suncor's stake in Syncrude to 53.74%, meaning there is plenty of room for additional acquisitions.

Four other partners own the remaining share; **Imperial Oil Limited** owns 25% of Syncrude, followed by Nexen at 17%, Sinopec at 9%, and Mocal Energy at 5%. If any of those partners are willing to sell their stakes at about the valuation that Suncor paid for Canadian Oil Sands's or Murphy Oil's stake, it would certainly be interested.

Likewise, the company has made it clear that it would love to buy more of its Fort Hills oil sands project from either of its partners **Total** or **Teck Resources Ltd.** It already made a deal with Total, buying an additional 10% stake from it last year for \$310 million. That boosted Suncor's ownership in the project to 50.8%, giving it plenty of room to boost its stake if either Total or Teck Resources want to sell down either of their stakes.

### Investor takeaway

Suncor is planning to refill its balance sheet with cash in order to put itself in the position to make another acquisition. While the company is likely open to a variety of deals, it's really hoping to pry additional stakes in either Syncrude or Fort Hills away from its partners to bolster its own position in those two key oil sands assets.

### CATEGORY

1. Energy Stocks
2. Investing

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### Date

2025/08/14

### Date Created

2016/06/16

### Author

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