Is Suncor Energy Inc. Getting Ready to Make More Deals?

Description

The protracted slump in crude has caused considerable damage to Canada's energy patch, causing some companies to fail and taking others right to the brink, but there is one energy company that is set to emerge from the slump in better shape than it was when it began. This company is integrated energy giant **Suncor Energy Inc.** (TSX:SU)(NYSE:SU).

You see, Suncor has taken full advantage of the protracted slump in crude and depressed asset prices to make a series of acquisitions that have significantly boosted its asset base and oil production. There are signs that Suncor is seeking to make further accretive acquisitions.

Now what?

Over the last year Suncor has invested $9 billion in the energy patch, making a series of accretive purchases that have boosted its daily production capacity by 164,000 barrels of crude. These investments include the acquisition of an additional 10% of the Fort Hills oil sands project from **Total S.A.**, the $6 billion takeover of Canadian Oil Sands Ltd., and the $937 million purchase of **Murphy Oil Corporation's** 5% interest in Syncrude.

Now Suncor is building a new war chest, using an equity raising to add a further $2.5 billion to its balance sheet. The proceeds are earmarked for the repayment of debt and, in the words of management, "… to provide ongoing balance sheet flexibility, including for opportunistic growth transactions that Suncor may identify in the future."

And with signs that weak oil prices are here to stay, Suncor will certainly be able to make any further acquisitions at bargain-basement prices.

One obvious target is the Fort Hills project. Suncor has indicated it would be willing to acquire more of the project from partners Total and **Teck Resources Ltd.** This would make sense for Suncor because it would give it greater control over Fort Hills and the ability to further drive efficiencies and reduce costs at the controversial project, which is uneconomic at this time with a breakeven price of US$96 per barrel.

It’s been speculated that **MEG Energy Corp.** (TSX:MEG) could be a possible takeover target for Suncor.

You see, MEG, which has three billion barrels of oil reserves and operates an in-situ SAGD project at Christina Lake in the southern region of the Athabasca oil sands, is arguably one of the most efficient of the oil sands operators.

One of MEG’s key advantages is its low cash costs of US$16 per barrel, which are well below those of Suncor’s own oil sands operations, which for the first quarter were US$19 per barrel. Its high-quality asset base would be a significant addition to Suncor’s own, reinforcing its position as the undisputed king of the oil sands.

In the current, difficult operating environment, Suncor’s ability to grow its oil production and make acquisitions despite weak oil prices is its primary strength. As a result, its first-quarter 2016 oil production grew by a remarkable 15% compared with the same quarter in 2015, and all of that growth came from its oil sands operations, while conventional oil output actually declined.

So what?

The ability to boost its asset base and oil production through acquisitions, means that Suncor is well positioned to take advantage of higher crude prices when they finally rebound. This will give its bottom line a healthy bump, causing its share price to appreciate.

This makes Suncor one of the very few energy companies that will emerge from the oil rout in better shape than when it entered it, which is an important consideration for investors.

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Author
mattdsmith