Suncor Energy Inc.’s Financial Maneuvering Continues

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) entered the downturn in oil prices with a stronger balance sheet than most of its peers. That relative strength enabled the company to take advantage of opportunities brought about by the downturn to expand its asset base.

Without flinching, it spent $9 billion on acquisitions to bolster its position in two key oil sands assets, while also funding billions in growth-focused capex. That spending, however, is starting to catch up with the company, which is why it recently took steps to replenish its cash position and is now making additional moves to bolster its balance sheet by trimming debt and selling assets.

A debt haircut

Last week Suncor launched offers to repurchase up to $1.5 billion of its notes from bondholders, which is about 10% of its total outstanding debt. All of the bonds it is seeking to repurchase were originally issued by the recently acquired Canadian Oil Sands and carry coupons as high as 8.2%. Because of that relatively high cost, the company can cut its interest expenses by taking out this debt, though it is offering a pretty generous premium to repurchase this debt. In several cases, it is offering more than $1.10 on the dollar to retire the debt.

While the company will still capture some long-term interest savings, the main reason why Suncor is making this move now is to increase its balance sheet flexibility. The combination of weak oil prices and the buying binge pushed its debt metrics above their historical averages. Suncor’s debt-to-capitalization ratio, for example, has risen from the low 20% range up to almost 30%:

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SU debt to cap

While that is not a worrisome number by any means, it is not as strong as the company would like it to be.

Asset sales on the way

Another step Suncor is taking to improve its debt metrics is to auction off some of its non-core assets.

According to a report by *Reuters*, the company recently put its Petro-Canada lubricants division up for sale. That unit, which makes more than 350 advanced lubricants for a range of industries, is expected to fetch $800 million. The sale is part of the company's plans to sell up to $1.5 billion in assets.

Analysts also expect the company to put its wind farms and processing and storage assets up for sale to hit the high end of its asset sale target. Proceeds from these sales will initially be used to bolster its cash position and enhance its financial flexibility.

Why Suncor is making these moves

Suncor is making these moves because it sees a strong balance sheet as a competitive advantage. It is an advantage the company does not want to lose.

The reason why maintaining its balance sheet edge is important to Suncor is because it plans to use it in the future. The company has made it clear that it would like to pursue additional acquisitions. By enhancing its financial flexibility now, it will be in the position to bid on multiple transactions in the future without being held back by any financial constraints. That gives it a leg up on its peers–many of which don't have the financial flexibility to even consider making an acquisition right now.

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