



## Citigroup Inc. Upgrades Suncor Energy Inc.: Is Cash Flow About to Roar?

### Description

This week analysts at **Citigroup Inc.** ([NYSE:C](#)) upgraded **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) to “buy,” raising its price target from \$40 to \$44.

The group believes that, following Suncor’s latest acquisition spree, its growing stake in the Syncrude oil sands project will allow free cash flow to grow at an attractive clip should oil prices continue to rise. The analysts also expect output to return to full production at Suncor’s Syncrude, Base Mine, and MacKay River projects.

Is Suncor about to become a free cash flow machine?

### Refining its focus

As Canada’s leading vertically integrated oil and gas producer, Suncor has been on a mission to streamline its business in two ways: consolidating its current projects and selling non-core assets.

In February, Suncor announced that it would acquire Canadian Oil Sands Ltd. for \$6.9 billion, including the assumption of \$2.6 billion in debt. The buyout upped Suncor’s stake in the Syncrude oil sands project to 48.7%. Then in April Suncor made another announcement that it would buy **Murphy Oil Corporation’s** 5% Syncrude stake for \$937 million. Suncor now holds a majority 53.7% position in the project.

The two acquisitions boost Suncor’s output by about 146,000 barrels a day.

Following these two moves, Suncor is now heavily exposed to the future of Alberta’s oil sands. The remaining Syncrude partners include **Imperial Oil Limited** (25% stake), **Sinopec Shanghai Petrochemical Co.** (9%), **Nexen Energy ULC** (7%), and **Mocal Energy** (5%). At the right price, expect Suncor to continue rolling up its interest in the project.

On the divestiture side, Suncor has already sold over \$4.5 billion in assets over the last seven years. In April management said that it has earmarked \$1-1.5 billion in additional asset disposals. A recent report from *Reuters* stated that Suncor has launched an auction to sell its lubricants division for a

targeted \$800 million. That will likely be just one of many sales Suncor will hold this year to further streamline its business focus.

### What's next?

Syncrude isn't the only project that Suncor has been consolidating. Fort Hills is another oil sands play, and following its buyout of **Total SA's** 10% stake for \$310 million, Suncor now has a majority 51% interest. Eventually, Fort Hills will produce 180,000 barrels a day in total. Suncor also owns a 21% stake in a development off Canada's east coast, which will produce about 150,000 barrels a day.

These projects, along with expansions and efficiency upgrades at Syncrude, should ensure long-term production growth. Today, Suncor controls 30% of Canada's total oil sands production capacity, making it a cash flow juggernaut if oil prices continue to climb.

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 a great option for oil bulls.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:C (Citigroup Inc.)
2. NYSE:SU (Suncor Energy Inc.)
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