



Buy Suncor Energy Inc. and Ride its Acquisition Ship

Description

Believe it or not, this depressed oil economy has actually been a blessing in disguise for **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), because it has allowed the oil behemoth to pick up assets from troubled companies that are in desperate need of cash. For the past couple of years the company has spent billions of dollars on acquisitions, increasing its total market share.

In October 2015 the company initiated a hostile takeover of Canadian Oil Sands, ultimately paying \$4.2 billion for the company. While it had to assume \$2.4 billion in debt, its exposure to the Syncrude project went from 12% to 49%, a huge jump that will provide increased cash flow. In April, Suncor bought an additional 5% of the Syncrude project from **Murphy Oil** for \$937 million. It will continue to allow its partner, **Imperial Oil Limited**, to run the project, but Suncor now owns a majority stake.

But this isn't enough for the company. The CFO has suggested that the company is still looking for new deals. While it wants to acquire more assets at either Syncrude or Fort Hills, which it now controls 50.8% of, the company will look anywhere that will help it with its goal. Specifically, it wants to be able to produce 800,000 barrels of oil per day by 2019. This would be a 40% increase to its production compared with last year.

An analyst at CIBC Capital Markets believes that the first likely target is the 29% stake that French company **Total S.A.** owns in Fort Hills. Estimates suggest that this could cost the company \$1.9 billion. This would be incredible exposure to the region, generating outsized amounts of profit for investors for years to come. And if commodities turn south, it's possible that **Teck Resources Ltd.** could be convinced to sell its stake in Fort Hills, giving almost complete control to Suncor.

After that, though, there are a few other moves that Suncor could make. Many of Suncor's top competitors, including **Royal Dutch Shell**, **BP**, and **Total** have been looking to reduce their exposure to deepwater drilling in the North Sea. If these companies get desperate to sell, Suncor may be able to pick up some pretty cheap assets.

Suncor currently owns 20% of the Shelburne Basin off Nova Scotia. **ConocoPhillips**, another partner in the project, announced plans to get out of the deepwater business, so that might be a place for

Suncor to acquire a bigger share.

Crossing the Atlantic, Suncor owns 30% of the Buzzard field, which is about 50 kilometres off the coast of eastern Scotland. This is a high-producing location, and Suncor could take a controlling stake in the 180,000 barrel-a-day project.

One thing to remember about Suncor is that it is also in the refinery business. It might look to start picking up refineries in the United States and in Canada. One target that analysts have talked about is Shell Canada's Corunna refinery, which is located in Ontario. It also wants to sell a refinery in Martinez, California. And **Chevron** is looking to sell a refinery and gasoline stations in Burnaby, British Columbia.

It's clear there is a plethora of assets that Suncor could pick up. Perhaps it will buy more oil-producing projects. Or perhaps, it will invest in becoming an even stronger integrated player. Whatever it decides to do, I expect that investors will be handsomely rewarded when oil prices go higher. The cash flow should allow for significant dividends in a few years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

Category

1. Energy Stocks
2. Investing

Date

2025/09/17

Date Created

2016/06/29

Author

jaycodon

default watermark