



## Suncor Energy Inc. Is the Biggest Recipient of Cheap Oil

### Description

It has been a very painful time for many of the oil companies that launched because of high prices. For years they reaped the benefits of nearly US\$100/barrel oil, borrowing money to ramp up production. However, since the price has plummeted, these companies have suffered.

But there are a few that have been doing really well. One in particular is **Suncor Energy Inc.** ([TSX:SU](#)) ([NYSE:SU](#)), one of Canada's largest oil operations. As oil prices start to climb out of the hole, Suncor will be in a prime position to see tremendous growth.

Suncor has been able to gobble up many high-quality assets owned by companies suffering from too much debt and not enough revenue.

Suncor announced that it was acquiring Canadian Oil Sands Ltd. for \$6.9 billion, increasing its exposure to the Syncrude project from 12% to 49%. Soon after, it added a 5% stake of Syncrude from **Murphy Oil** for \$937 million. While it won't actively manage the project, Suncor will still generate the bulk of the oil from it with an additional 146,000 daily barrels.

This alone would be a huge move for Suncor, but its CFO alluded that it needs to continue acquiring more assets, so it can reach its ultimate goal of producing 800,000 barrels of oil a day by 2019. This would be a 40% increase to current production.

There are two places Suncor might look to acquire further oil.

The first is at the Fort Hills oil sands project, which it has a stake in. It purchased a 10% stake last year, but analysts at CIBC Capital Markets believe that the 29% stake of Fort Hills that French giant **Total S.A.** owns is a prime target. This would cost Suncor an estimated \$1.9 billion, but the company recently raised a \$2.5 billion equity round, so it has more than enough resources to make itself stronger.

To further expand its exposure to Fort Hills, Suncor could look to acquire the stake that **Teck Resources Ltd.** holds in the project, giving Suncor nearly total control of the project.

One place that I expect to see Suncor expand is in deepwater oil exploration. In the Shelburne Basin off Nova Scotia, Suncor owns 20%. Its partner in the project, **ConocoPhillips**, announced that it wanted to get out of the deepwater business entirely, so that might be a good place for it to start.

But there's another place that Suncor benefits from: refining.

Unlike other oil companies, Suncor is fully integrated: it pumps the oil and then ships it to one of its refineries, allowing it to earn revenue on all aspects of the business. Analysts predict that Suncor could try to buy a couple of refineries from **Royal Dutch Shell**.

Suncor built its business with the expectation that \$100/barrel oil couldn't last forever. And when prices finally dropped, the company was in a prime position to dominate by acquiring over-leveraged competitors.

If oil prices continue to rise, I expect Suncor's price to rise with it. Buying shares now, while they're a little expensive, could turn out to be a smart buy.

## CATEGORY

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