Despite the Uncertainty, Suncor Energy Inc. Has Plenty of Growth Ahead

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) CEO Steve Williams recently painted a less than rosy picture for the future of the oil industry. He told attendees at a conference that oil prices will become more volatile after next year due to underinvestment in new supply as well as uncertain growth in demand. That said, while the outlook for oil prices is unclear at the moment, the prospects for Suncor Energy are very clear.

The fundamental problem in the oil sector

In Williams's view, oil prices will rise over the next year as the market continues to recover from a deep slide. However, he sees prices becoming more volatile over the following two to five years because of concerns surrounding both supply and demand growth, which are the same two fundamental forces at war right now.

The overarching supply concern is due to two years of underinvestment. While shale wells have a short investment cycle of just a couple of months before new oil supplies come online, oil sands and offshore projects, like those Suncor Energy develops, can take years to deliver oil. The question is whether or not the industry can drill enough shale wells in the interim to meet declining and depleting supplies from legacy fields around the world.

Demand, on the other hand, has been growing rather steadily for years. While it slowed in 2014, leading to the initial decline in oil prices, it came roaring back in 2015 and remained robust this year. That said, the rise in electric and hybrid cars as well as increasing fuel economy could keep demand down in developed economies. That leaves emerging markets as the prime driver of growth, which could be a problem if their economies weaken.

Poised for success in almost any environment

That outlook could take crude prices anywhere, which makes it tough for oil companies to plan for the future. That is why Suncor Energy is aiming to successfully operate at lower prices, which would allowit to thrive in almost any environment. Currently, the company can successfully operate even if oil averages $35-40 a barrel.

At those prices, the company has enough embedded growth in its portfolio to drive a 6% compound annual increase in production per share through 2019. That is largely because the company has two major growth projects underway (Hebron and Fort Hills) that will supply the bulk of its growth once they come online by the end of next year.

With so much of its growth already underway, it really doesn’t matter all that much what oil prices do over the next few years because Suncor can be successful either way.

Meanwhile, if prices are meaningfully higher, it would give Suncor the ability to invest in longer-term projects, such as expanding its SAGD production by sanctioning projects such as MacKay River 2, which it initially planned to start constructing in 2015 to deliver first oil by 2017. In addition to that, higher oil prices mean more cash available for distribution to shareholders.

Needless to say, the company would do quite well under a higher oil-price scenario.

Investor takeaway

While Suncor Energy’s CEO sees more uncertainty ahead for the oil market, his company is prepared to handle whatever comes its way. That is a nice place to be because it gives investors a clear picture of what to expect from the company in the years ahead. In this case, they can expect solid single-digit production growth per share in a low oil-price environment with the likelihood of a higher growth rate and larger shareholder distributions if prices improve.

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