



Suncor Energy Inc. Takes a \$105 Million Hit: Time to Buy?

Description

Last week, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) revealed that it will be forced to take a \$105 million write-down related to an exploration well in the Shelburne Basin off the shore of Nova Scotia. The reason for the hit was simple: the project failed to produce commercially viable volumes of oil.

This represents just another headwind that Suncor has faced this year.

In May, more than one million barrels a day of output was taken offline by wildfires. Suncor had to shut down its regional operations twice. Wildfires also idled production at Syncrude, of which Suncor has a growing stake. Following two acquisitions this year, the company controls more than 50% of the project.

These troubles are a big reason why Suncor hasn't participated in the major oil rally which began at the start of 2016. Year-to-date shares are up only 1.96%, heavily lagging the rise in crude prices, which are up 18.46%. For comparison, close competitor **Canadian Natural Resources Limited** ([TSX:CNQ](#))([NYSE:CNQ](#)) is up nearly 40%.

Is this a chance to buy low? Or is Suncor lagging for a good reason?

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Buy if you're an oil bull

Over the past year, Suncor has invested more than \$8 billion in the Canadian oil sands region. It now controls roughly 30% of all Canadian oil sands production.

This is fantastic news only if you anticipate oil topping US\$80 a barrel over the next few years.

Given the high costs of drilling and refining oil sands production, Suncor has tied its ship to dramatically higher oil prices. While many competitors are able to turn a profit at US\$50 oil, Suncor is going to need even higher prices to justify some of its recent acquisitions.

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. Then in April Suncor made another announcement that it would buy **Murphy Oil Corporation's** 5% Syncrude stake for \$937 million.

These two acquisitions alone boosted Suncor's output by about 146,000 barrels a day. Suncor now holds a majority 53.7% position in the project.

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.

Let's take a look at some of these acquisitions to see how Suncor has been upping its risk profile.

Difficult breakeven levels

Eventually, Fort Hills is expected to produce 180,000 barrels a day in total. But with an estimated \$13.5 billion cost, Suncor will likely need US\$90 crude to break even on a total investment level.

Another major development, its Hebron project off Canada's east coast, is expected to cost \$14 billion (Suncor has a 21% interest). But with an expected lifespan of only 20-25 years, this is another project that may be difficult to justify if prices don't continue improving.

While Suncor will no doubt benefit as oil prices move higher, conditions still need to improve quite a bit for it to reach its historical profit figures.

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1. Energy Stocks
2. Investing

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1. Editor's Choice

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Date

2025/08/26

Date Created

2016/10/06

Author

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