



Suncor Energy Inc.: A Buy With Slowly Rising Oil Prices?

Description

We've talked a lot about how oil prices have dropped, making it more difficult for energy companies to generate profit. But if we actually look at the Brent crude market, the reality is that oil prices hit their ultimate low back on January 20, 2016, when the price was US\$27.88. Since then, the price has been slowly rising to where it is today at approximately US\$51.92 per barrel. While it has been a rough couple of years, prices are moving in the upward direction, albeit very slowly.

So investors have to ask themselves if they believe oil prices will continue to improve and decide which energy company is the right one to own. It appears that prices could continue to strengthen so long as OPEC reaches a deal to cut its production, even just a little. Should that occur, we may see a rebalancing of supply and demand. As for which company to own, I remain particularly interested in **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

One reason I like Suncor is because it is a fully integrated business. It pumps oil, both offshore and in oil sands. It then refines that oil in its own refineries. It also has a retail business that can sell the refined gasoline (though there are rumours of this retail business being sold). This means it can maximize its profits.

But the real reason I like Suncor is because it has used its size to make a series of deals that will make it far more powerful once oil prices continue to rise. It is because of this acquisitive nature that Suncor might be one of my favourite oil companies in Canada today.

Just as oil prices were reaching their low, Suncor was completing its acquisition with Canadian Oil Sands Ltd. for \$6.9 billion (this included assumption of debt). This expanded its exposure to the Syncrude project from 12% to 49%. **Murphy Oil** sold its 5% stake in Syncrude to Suncor for \$937 million. This ultimately results in a 146,000 daily barrel increase for the company.

It also recently announced that it purchased a 30% interest in the U.K. North Sea Rosebank project from **OMV Limited** for US\$50 million. If the venture goes forward, Suncor may have to pay an additional US\$165 million to OMV and then be on the hook to invest in a project with a budget of \$3 billion. But it has design capacity for 100,000 barrels of daily crude oil and 80 million cubic feet of

natural gas, so the costs could be worth it.

What's quite appealing is that Suncor doesn't seem to be slowing down. The rumour going around is that Suncor might look to sell its Petro-Canada gasoline station chain in an attempt to raise more money so it can then make more acquisitions. Although the company denies it, sources told **Reuters** that the deal could be worth upward of \$8.4 billion, which would be quite significant.

All in all, Suncor is making all the right moves. It's divesting non-core assets and reinvesting those funds into smart acquisitions that will help it achieve its goal of 800,000 barrels of oil per day. When oil prices increase, the profits Suncor will achieve will be quite lucrative.

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