



Does Suncor Energy Inc. Deserve to Be a Top Pick?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) had a tough second quarter, but investors with a long-term outlook are warming up to the stock.

Let's take a look at the integrated oil giant to see if it deserves to be in your portfolio.

Balanced revenue stream

Suncor is best known for its massive oil sands operations, but the company also owns four large refineries and more than 1,500 Petro-Canada service stations.

The integrated model is helping the company weather the oil rout reasonably well, and this was clearly evident in the Q2 numbers.

What happened?

Low oil prices and shutdowns connected to the Albertan wildfires hit the upstream operations hard in the second quarter. Oil sands output fell to just 177,500 barrels of oil equivalent per day (boe/d) from 423,800 boe/d in Q2 2015.

As a result, cash operating costs per barrel (bbl) jumped from \$28/bbl in Q2 2015 to \$46.80/bbl in Q2 2016, and Suncor reported a Q2 operating loss of \$0.36 per share.

That's a rough three months, but strong performances in the downstream groups helped offset some of the pain. Refining activities generated operating earnings of \$581 million, and the marketing segment added another \$108 million.

Most of the oil sands operations were back at previous levels by the middle of July, and Suncor's full-year cash operating cost is still expected to be \$27-30 per barrel, so the overall impact from the wildfires should be limited.

Growth opportunities

Suncor is taking advantage of the difficult market conditions to bulk up its asset base in preparation for better days.

The company has raised its ownership of Syncrude to more than 54% through the acquisition of Canadian Oil Sands and a 5% stake held by **Murphy Oil**.

Suncor also recently closed a deal for a 30% participating interest in the North Sea Rosebank project.

The balance sheet remains very strong, and Suncor has little trouble raising capital. For example, Suncor sold \$2.9 billion in new shares in June and recently raised an additional \$1 billion through the sale of medium-term notes.

Dividends

Suncor pays a quarterly dividend of \$0.29 per share for a yield of 3%. The company has raised the payout five times in the past five years, and growth should continue once oil prices stabilize.

Should you own this stock?

Pure-play producers definitely offer more upside torque than Suncor, but they are also at risk of going bust if oil prices tank again.

If you are an oil bull, but believe more volatility might be on the way in the near term, Suncor offers an attractive way to ride out the tough times and then reap the benefits when oil finally recovers.

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Date

2025/09/17

Date Created

2016/10/19

Author

aswalker

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