Suncor Energy Inc. Is Going Through Radical Change: Here's Why

Description

Over the past few years, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) has completely revamped its business. If you have been a long-term shareholder, the company you own today isn't the company you first bought.

This year alone Suncor has put billions into new acquisitions, while freeing up billions through divestitures. Then this summer the company raised a hefty $2.9 billion, and it's likely that this fresh financing will be put towards additional acquisitions, not towards paying down debt.

How has the business changed? Why go through the effort and expense of such a radical re-haul?

Here's what happened

This year Suncor announced that it would acquire Canadian Oil Sands Ltd. for $6.9 billion as well as **Murphy Oil Corporation's** 5% Syncrude stake for $937 million. Suncor now holds a majority 53.7% position in that project—the biggest oil sands operation in the world.

Syncrude isn't the only project that Suncor has been consolidating. Fort Hills is another oil sands play, and Suncor bought out **Total SA's** 10% stake for $310 million. Suncor has also been consolidating its stake in a development off Canada's east coast, which will produce about 150,000 barrels a day.

On the divestiture side, Suncor has already sold over $4.5 billion in assets over the last seven years. Just this September it agreed to sell a 34% stake in a $1 billion bitumen storage facility under construction north of Fort McMurray in Alberta to the Fort McKay First Nation for $350 million.

Despite that radical asset purchases and disposals, Suncor isn't done yet.

In April management said that it has earmarked $1-1.5 billion in additional asset disposals.

A recent report from *Reuters* stated that Suncor has launched an auction to sell its lubricants division for a targeted $800 million. In October *Reuters* reported that the company is considering the sale of its Petro-Canada retail gasoline station business. The current selling price estimate is a whopping $8.4

billion.

On the acquisition side, the company was one of the bidders for **LyondellBasell Industries's** $2 billion refinery in Houston. Suncor is also a rumoured bidder for assets in the U.K. North Sea and Norwegian North Sea.

Why the repositioning?

Suncor is preparing for a new era for oil.

Oil prices will experience increasing volatility over the coming years—at least that's what Steve Williams, CEO of Suncor, wants you to believe. His reasons are simple: underinvestment in production and uncertain demand growth.

The underinvestment thesis looks to be correct. Due to the lack of investment, OPEC now believes $10 trillion will be necessary over the next 25 years to ensure adequate oil supplies. About $250 billion each year will have to come from non-OPEC countries.

He also appears to be correct about weak demand.

Both OPEC and the International Energy Agency (IEA) had predicted a steady, reliable 1% annual global growth for oil. That assumption is now under attack. The IEA recently released a report outlining an unexpected trend: demand growth hasn't kept up its historical pace. While growth was expected to ease over the next few decades, it's now slowing at a pace faster than previously thought.

Suncor is changing fast, but for a reason: the future of oil may be radically different from what it was in the past.

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