



Is This the End for Suncor Energy Inc.?

Description

On October 31, oil refiner **HollyFrontier Corp.** agreed to buy **Suncor Energy Inc.'s** ([TSX:SU](#))([NYSE:SU](#)) lubricants division for US\$1.13 billion. The deal is expected to close in the first quarter of 2017.

This represents yet another major transaction for Suncor this year.

In 2016 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; investors guessed it would be put towards additional acquisitions, not paying down debt.

Despite its active recent history, Suncor may be primed for a slowdown. According to an earnings call, CEO Steve Williams thinks that this may be the end for Suncor's gang-buster, deal-making ways.

Higher for longer?

Earlier this year, CEO Steve Williams said that oil prices will experience increasing volatility over the coming years. His reasons were simple: underinvestment in production and uncertain demand growth.

Volatility doesn't necessarily mean low prices, however.

This quarter, Suncor experienced 15% higher than expected cash flow numbers and a rebound in oil production. With US\$50 oil, Williams expects transaction volumes to plummet given larger players like Suncor are no longer struggling with finances.

"There is beginning to be less pressure on sellers and the window of opportunity may well be closing," Williams said on an earnings call. "We will not chase deals and, to be very frank, we don't need to do any more mergers and acquisitions."

Instead of buying and selling properties, Williams now believes that Suncor will shift more of its capital toward dividends and share buybacks. "You'll see movement on both of those fronts and it could be sooner than we thought," he said.

The future is bright either way

Suncor stock has had a fantastic fall, and shares have moved higher by over 20% since September's lows. Even if Suncor sits pat with its latest acquisitions and dispositions, the underlying business should prosper.

According to analysts from **Citigroup Inc.**, following Suncor's latest acquisition spree, its growing stake in the Syncrude oil sands project will allow free cash flow to grow at an attractive clip should oil prices continue to rise. Today, Suncor controls 30% of Canada's total oil sands production capacity, making it a cash flow juggernaut if oil prices continue to climb.

Suncor's management team is clearly betting on an ultimate rebalancing of oil markets. If that comes to pass, Suncor will become a free cash flow machine.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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