Is it Time to Reconsider Suncor Energy Inc.?

Description

There are few companies in the oil and gas sector that continue to make headlines as much as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). Part of that is because Suncor is one of the largest companies in that sector, and because Suncor has long remained one of best (if not *the* best) investments in that sector, despite prolonged weakness in oil prices.

That may all be on the verge of changing.

Filings with the U.S Securities and Exchange Commission revealed this week that Warren Buffett's **Berkshire Hathaway Inc.** has sold off all remaining shares of Suncor. Earlier this year, Buffett owned 30 million shares of Suncor, and, as of June, this figure was down to 22 million. This latest filing, which is dated September 30, reveals he no longer holds the stock.

What does this mean for Suncor investors?

Buffett is one of the most well-known and successful investors ever, and when he adds or drops a company from his portfolio, it tends to turn heads.

While only Buffett knows his reasons, there are some reasons why investors may want to consider realigning their portfolios with a smaller segment dedicated to energy stocks like Suncor.

The impact of the U.S. election, higher costs, and OPEC

President-elect Trump's views on the energy industry could be reason enough for investors to reconsider Suncor. Mr. Trump has not been coy in stating that he would push for more drilling to further beef up the energy sector. The problem with this is that the U.S. is already pumping out more oil than ever and prices remain relatively low.

OPEC countries also announced this past fall plans to cut production levels to boost prices–the first such event in a considerable time for the cartel. The hope is that a cut in supply will boost prices, but, given the increased U.S. supply, this seems unlikely, or it wouldn't be enough to significantly reducethe deficits that some OPEC countries, such as Saudi Arabia, are experiencing.

For Suncor, the high costs of the oil sands as well as the weak loonie may have been reasons for some investors wanting to reduce their Suncor exposure. If this were the only obstacles facing the Canadian energy company, it would be tough, but there's still one more factor.

Within the next few weeks, a carbon tax will go into place in Alberta, effectively hiking prices for companies in the energy sector. The carbon tax (arguably, the responsible thing to do for the environment) will put Canadian companies like Suncor at a considerable competitive disadvantage over the energy-producing peers south of the border in Texas.

Is there hope for Suncor?

Despite this, Suncor still has plenty of upside. Suncor is one of the most efficient companies in the energy sector, and the added cost of the carbon tax is an across-the-board change, at least for Canadian companies.

Suncor still delivered a positive quarter and continues to be a prime example of a company that can deliver both in terms of growth and profitability. In the most recent quarter, Suncor realized operating earnings of $346 million and net earnings of $392 million.

The company continued to become more efficient with the cost per barrel in the oil sands dropping to $22.15 in the quarter. This latest figure represents an 18% drop in price over the same quarter last year and the lowest price in over a decade.

Suncor also managed to increase production in the Syncrude venture to 183,800 barrels per day–up from 28,100 barrels per day. This change can be attributed primarily to additional working interests that Suncor acquired over the past year and added efficiencies. The cost per barrel at Syncrude also saw a significant drop from $41.65 in the same quarter last year to just $27.65.

Overall, Suncor remains a great investment for those investors seeking to diversify with an energy company. While some investors may be inclined to lower their positions, the truth is that Suncor is one of the largest, most profitable, efficient energy companies in the country that continues to turn a profit.

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