Drilling Down into Suncor Energy Inc.'s Very Efficient 2017 Budget

Description

One of the primary focuses of energy companies during the recent oil-market downturn has been to push down costs, so that they can produce more oil for less money. Those efforts are starting to bear fruit; several producers recently put out guidance detailing their ability to deliver more for less in the years ahead. That is clearly the case at Canadian energy giant **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), which recently released its preliminary plans for 2017 that show a tremendous amount of capital efficiency.

Delivering more oil for less

Suncor plans to spend between $4.8 billion and $5.2 billion in capex next year. That is substantially less than the $5.8-6 billion it plans to spend this year, which is already down from its prior guidance of $6-6.5 billion. Meanwhile, about 40% of Suncor's spending next year will be on growth projects with the rest invested in its existing assets to ensure safe, reliable, and efficient operations.

That growth capital is expected to boost Suncor's production up to an average of between 680,000 and 720,000 barrels of oil equivalent per day (BOE/d) next year. This rate would be well above its current 2016 guidance, which forecasts production averaging between 610,000 and 625,000 BOE/d in 2016 and even farther above its previous guidance of 585,000-620,000 BOE/d. Add it all up, and at the midpoint, Suncor expects to spend 16% less in 2017 and yet deliver 13% more production. That is capital efficiency at its finest.

Reaching the turning point

Two overarching factors are fueling this forecast. First, Suncor will benefit from a full year of a larger stake in Syncrude, which it expects will be much more efficient than it had been in the recent past. Since becoming a majority stakeholder in the asset, the company has been able to exert more control to improve operations. As a result, Syncrude's utilization has increased substantially, going from 70% last year to 98% last quarter.

In addition to the added boost from Syncrude, Suncor is putting the finishing touches on two major growth projects. After investing billions of dollars over the past several years, Fort Hills and Hebron are expected to deliver first oil by the end of next year. That will flip them from consuming cash to producing both oil and cash flow. While the incremental production will come very late in the year, these are significant growth projects. Because of that, they set the company up for an even more efficient 2018 depending on how much the company intends to spend on long-term growth projects.

Investor takeaway

Suncor invested billions of dollars during the downturn to buy and build additional assets to drive future growth. Those investments are poised to pay off in 2017 in the form of higher production at a much lower investment rate. Because of that, the company has the potential to generate a significant amount of free cash flow, which gives it the flexibility to greenlight new growth projects or return additional capital to shareholders.

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Date
2025/08/15
Date Created
2016/11/23
Author
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