Is Suncor Energy Inc. Going to Hit $50 Before the Year Ends?

Description

The oil markets have been on edge the past couple of weeks on renewed optimism that a deal will be struck between the OPEC member countries to decrease production by 700,000 barrels per day.

One stock that has benefited in the lead up to the negotiations is Canada's largest integrated energy producer **Suncor Energy Inc.**(TSX:SU)(NYSE:SU), whose shares have rallied almost 10% since October and are poised to rally even further if a favourable outcome is reached.

Best-in-class productivity and cost cutting

While most of Canada's oil-patch names were languishing during the two-year supply glut, Suncor's management was busy fine tuning the company; the company emerged from the cyclical trough stronger than ever. Suncor is expected to hit 680-720,000 boe/d in 2017–up from 534,900 boe/d total production in the pre-glut year of 2014.

Furthermore, Suncor's cost-cutting measures also reduced its operating, selling, and general expenses by $1 billion in 2014 and $500 million in 2016–meeting targets in both years.

Excellent acquisitions have strengthened market share

Suncor has also been busy on the merger front, using the cyclical downturn to pick up a handful of accretive opportunities at discounted valuations. One of the most prolific of these deals was the $937 million purchase of **Murphy Oil Corp.'s** 5% stake in Syncrude in April of this year, which followed the $4.2 billion takeout of Canadian Oil Sands in January. The combination of these two acquisitions firmly established Suncor as the dominant player in the oil sands arena.

Moreover, while the acquisitions were funded via debt and cash financing, Suncor's disciplined balance sheet management meant the company's leverage was kept in line with sector peers.

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Suncor's debt in line with peers (Source: Company Filings)

On the cash flow side of things, should an agreement be reached on November 30, sensitivity analysis shows the company will generate roughly $4.5 billion of operating cash flows at $50/bbl (Brent pricing) and $6 billion at $60/bbl. This combined with the Suncor's latest 2017 guidance of capex between $4.8 and $5.2 billion, a decline of 15% versus FY 2016, ensures the company will have no problems on the cash flow front.

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Suncor cash flow sensitivity (Source: Company Filings)

Finally, for income investors, Suncor has rewarded its shareholders through a generous dividend, which has steadily increased at a 23% compounded annual rate over the past 10 years. Furthermore, expect the company to ramp up buybacks as oil prices begin to recover.

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Suncor is trading at an in-line or discounted valuation to peers (Source: Author generated based on Bloomberg data)

In summation, thanks to its market dominance, strong balance sheet, proven management track record, and excellent valuation, Suncor remains the best offering to play the coming rebound in oil prices.

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