Suncor Energy Inc.: Will This Stock Soar in 2017?

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is up 23% in 2016 and now lies within spitting distance of its five-year high.

Let's take a look at the current situation to see if Suncor could continue to rally in 2017.

Snapshot

Suncor traded for $46 per share in June 2014. At the time, WTI oil was worth US$100 per barrel, and the entire energy sector enjoyed strong investor confidence.

Today, WTI oil sits at US$52 per barrel, and investors are slowly drifting back into the energy space after taking an ugly beating. Most oil stocks still sit at less than half their pre-crash levels. Some remain off as much as 75%.

And Suncor?

The stock is trading at $44 per share–a level where it pretty much stood right near the peak of the oil boom.

What gives?

At first glance, the stock would seem heavily overbought, and you don't have to look very hard to find pundits who think this is the case, but Suncor has made some smart moves during the downturn to position it well for a recovery, and the market appears to like what it sees on the horizon.

The company significantly increased its ownership of Syncrude through the acquisition of Canadian Oil Sands and the purchase of a small position held by **Murphy Oil.**

Suncor has also narrowed its focus through the recent sale of its lubricants group.

Efficiency gains

The oil rout has forced all oil producers to take a hard look at reducing their operating costs, and Suncor has made significant progress on this front.

Oil sands cash operating costs in Q3 2016 came in at $22.15 per barrel compared to $27 per barrel in the same period last year. This means higher margins and more cash flow available for potential dividend hikes.

Integrated business model

Suncor is primarily known for its oil sands operations, but the company also owns four refineries and a network of 1,500 Petro-Canada retail outlets.

The diversified revenue stream has helped the company generate decent results through the oil downturn, as low oil prices tend to push up gasoline demand and reduce input costs for the refining businesses.

Outlook for 2017

Operational improvements are set to deliver impressive numbers in the coming year.

Suncor expects to deliver average daily production of 680,000-720,000 barrels of oil equivalent per day (boe/d). At the midpoint of the guidance, the company would see a 13% rise in output on a year-over-year basis.

Suncor is targeting capital spending of $4.8-5.2 billion in 2017, which would be about $1 billion lower than the current year.

So, the company is going to generate strong production growth while spending significantly less money.

One other item to watch is the Fort Hills oil sands project, which is scheduled to begin production near the end of 2017. Suncor owns 50.8% of Fort Hills, and the company should see a healthy rise in production as the facility ramps up to target capacity.

If oil prices climb through 2017, Suncor's stock could get a nice boost leading up to the Fort Hills launch.

Should you buy Suncor?

Suncor certainly isn't a cheap stock, but it is also a best-in-class holding in the oil sector and remains attractive for the long haul.

If oil prices are destined to continue their recovery, Suncor will benefit. If a pullback is in the cards in the near term, Suncor will suffer less than many of its pure-producer peers, and you can collect a safe 2.6% dividend along the way.

The market might be getting a bit ahead of itself, so I wouldn't back up the truck today, but the stock is worth owning if you want a solid buy-and-hold pick in the energy space.

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