



## Will 2017 Be Suncor Energy Inc.'s Best Year Yet?

### Description

While it has yet to release final 2016 numbers, last year turned out to be an excellent one for **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). While many of its financial metrics were well off the all-time highs set before the crash in crude prices, some of the company's operating metrics were at record levels.

During the third quarter, for example, the company pushed oil sands operating costs to near decade lows while delivering record refinery throughput and daily production. Because of these factors, one could make the case that last year was one of the company's best. That said, 2017 could be even better. Here's why.

### Production continues to march higher

Suncor entered 2016 expecting to produce between 525,000 and 565,000 barrels of oil equivalent per day (BOE/d). That represented a slight decline from the prior year due in part to several significant planned maintenance activities it had on the docket. However, the company revised that number upwards more than once, expecting to produce an average of 610,000-625,000 BOE/d during the year. Higher production was fueled by the company's successful acquisition strategy, whereby it increased its stake in the Syncrude oil sands facility by an additional 41.74% in two transactions.

Suncor expects its production to rise even higher this year; initial expectations are that output will be in the range of 680,000-720,000 BOE/d. At the midpoint, that is 13% higher than last year and represents a new record.

Another driver of the year-over-year increase is the expected completion of the Fort Hills and Hebron projects by year-end. After investing billions of dollars in these projects over the past couple of years, Suncor will finally see a return on those investments; the ramp up from those projects will set the company up to deliver even higher production in 2018.

### Cash flow should rebound

One of Suncor's other major success stories last year was the ability to drive down operating costs. Through the third quarter, oil sands operating costs were \$27.15 per barrel, while costs at Syncrude

were \$38.85 per barrel. Those numbers represent a significant improvement from prior years; oil sands operating costs were down nearly \$10 per barrel since 2013, while Syncrude's costs were down more than \$9 per barrel from its peak in 2014.

The company sees even further improvements coming this year with expectations that oil sands operating costs will average \$24-27 per barrel, which, at the midpoint, is a 37% reduction since 2011. Meanwhile, the company sees Syncrude's costs falling to \$32-34 per barrel this year, which would be its lowest level in several years.

These lower costs combined with rising production and stable oil prices in the low \$50s would enable Suncor to produce roughly \$8 billion in cash flow from operations this year. That is up from an estimated \$6 billion last year when oil averaged \$43 per barrel, though it is well below the \$9.4 billion it produced in 2013 when crude averaged nearly \$98 per barrel.

That said, given its lower costs and rising output, Suncor will not need a return of near-triple-digit oil to generate cash flow above 2013's level. However, it is highly unlikely that oil will rise enough this year set a new record.

### **Investor takeaway**

This year should be Suncor's best ever for production thanks to recent acquisitions and upcoming project completions. That said, given current oil-price expectations, the company probably will not set a new record for cash flow.

However, it is not as far away from that peak as it used to be thanks to the significant improvement in its costs and production. In fact, given its upcoming project completions, the company could set a record as early as 2018 if commodity prices cooperate.

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## Author

mdilallo

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