Suncor Energy Inc.: Buy the Dip?

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) enjoyed a nice 26.15% rally last year thanks to increasing oil prices, but shares have since pulled back by 7.7% in 2017. When oil was in its low earlier last year, Suncor's terrific balance sheet enabled the management team to make some great acquisitions at a low price.

When oil prices were at their low, Suncor was firing on all cylinders, while most other companies in the oil patch were on their knees. The fantastic management team led by Suncor CEO Steve Williams can be thanked for the incredible operational efficiencies that allowed the company to survive in times of turmoil.

Warren Buffett dumped his stake in Suncor last year, but does that mean you should follow in his footsteps? Or did Buffett just need the money for another opportunity that he thought was more attractive?

Suncor expects production to increase by 13% in 2017 while capital spending will fall by $1 billion thanks to cost-saving initiatives. The management team sees capital expenditures between $4.8 billion and $5.2 billion next year and expects to produce between 680,000 and 720,000 barrels of oil per day, which is substantially higher than the 610,000-625,000 barrels per day from the 2016 guidance.

The management team's focus on cost management will allow Suncor to survive another oil rout, and it will also allow for a huge increase in long-term free cash flow once oil prices gradually increase to higher levels. It's a win-win situation!

If oil crashes again, then we can expect Suncor to acquire its financially stressed peers, and it will be well positioned once oil rebounds. But if oil prices continue rising, we can expect a free cash flow to skyrocket, and shareholders will be rewarded in the form of a generous dividend raise.

There’s no question that Suncor has one of the most efficient operations in the oil sands, and investors can feel safe knowing that if another oil rout happens, they will not lose their shirts. Suncor is one ofthe few companies that would still be able to do well in a low-oil-price environment and continue to pay dividends to shareholders.

As Buffett once said, “Only when the tide goes out do you discover who’s been swimming naked.” The Canadian oil patch is full of naked swimmers, but Suncor is definitely not one of them.

Many pundits believe oil prices continue to move higher and may break the $60 level by the conclusion of 2017. As Suncor ramps up production, we can expect the company to soar in 2017 and beyond. The current dip is nothing more than a buying opportunity for long-term investors.

There was a reason why Buffett loved Suncor to begin with, and I believe he was wrong to dump his stake so soon. Collect the 2.86% dividend yield while you wait for the stock to rally higher.

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