3 Numbers Suncor Energy Inc. Investors Won't Want to Miss

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) ended 2016 in grand fashion, reporting robust results for the fourth quarter. The company trounced analysts' expectations after reporting operating earnings of $636 million, or $0.38 per share, which was $0.22 per share ahead of the consensus estimate. Here are the three numbers that combined to fuel that stand-out result.

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Record output

One thing that fueled the company's expectation-beating results was production, which averaged 738,500 barrels of oil equivalent per day (BOE/d) during the quarter. That's a new record for the company and up sharply from the year-ago period when Suncor's production averaged 582,900 BOE/d.

That growth came even though production from the company's legacy oil sands assets declined by 6,300 BOE/d year over year due to an increase in unplanned maintenance during the fourth quarter. Offsetting that decline was a 5,800 BOE/d increase in production from the company's E&P assets due to production from new wells at its Hibernia offshore platform and improved reliability at Terra Nova.

Meanwhile, the primary driver of the company's record output was Syncrude, where production averaged 187,000 barrels per day last quarter — up from just 30,900 barrels per day in the year-ago quarter. The major factor fueling that increase was that Suncor acquired an additional 41.74% ownership interest in the facility last year via two acquisitions. In addition, Syncrude's reliability increased from 73% in the year-ago quarter to 102% of nameplate capacity last quarter thanks to the company's efforts to improve Syncrude's operations after boosting its stake.

Putting pressure on costs

Suncor also did an exceptional job continuing to push its costs down. Oil sands cash operating expenses declined from $28 per barrel in the year-ago quarter to $24.95 per barrel last quarter thanks to a combination of ongoing cost-reduction initiatives, which more than offset the impact of rising natural gas prices.

Costs at Syncrude in particular came down sharply, falling from $40.15 per barrel in the year-ago quarter to $32.55 per barrel in the fourth quarter. That improvement is primarily due to the increase in production back above nameplate capacity, enabling the company to spread fixed costs across the higher output. This change at Syncrude is just what Suncor hoped to achieve when it acquired a controlling stake in the facility last year.

A gusher of cash flow

Rising production and falling costs alone would have been enough to deliver a standout quarter for Suncor. However, the company had the added benefit of higher commodity prices, which added a third tailwind to drive up profitability. Overall, crude was 17% higher year over year, while gas up 27% from the year-ago period.

That combination of rising production and prices, when combined with falling costs, was the recipe for robust cash flow last quarter. In fact, Suncor reported funds from operations of $2.365 billion, or $1.42 per share, during the quarter, an increase of more than a $1 billion from the year-ago period when its FFO was $1.292 billion, or $0.90 per share. That rising cash flow enabled Suncor to boost its dividend 10% for 2017.

Investor takeaway

Everything went right for Suncor last quarter. Its production rose to a new record thanks to a massive improvement in reliability at Syncrude, which helped drive down costs. Add in higher oil prices, and the company really cashed in during the quarter. The company should be able to maintain that pace in 2017 as long as it continues to operate efficiently, keeps a lid on costs, and crude prices stay around where they are.

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Date
2025/08/14
Date Created
2017/02/14

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