Is Suncor Energy Inc. the Right Stock for Exposure to Oil?

Description

Last year was an incredible year for **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), and 2017 is lining up to be even greater. At the beginning of 2016, Brent crude traded at less than US$29 a barrel. Fast forward to today, and a barrel of oil is over US$55. While other companies wallowed in their suffering, Suncor was putting a strategy in place that would make it far stronger than it had ever been before.

default watermark

That doesn't mean that Suncor didn't experience its own suffering. In the fourth quarter of 2015, the company had a net loss of over $2 billion. After foreign exchange gains and derecognition and impairments, its operating loss was $26 million. However, it's what Suncor did after that which made this past quarter absolutely fantastic.

Suncor completed two acquisitions that expanded its exposure to the Syncrude project from 12% to 54%. The first acquisition was $6.9 billion for Canadian Oil Sands. It then paid $937 million to acquire 5% of the business owned by the Canadian subsidiary of **Murphy Oil Corporation**. Both of these deals were smart because the Syncrude project was expected (and has) to generate consistent daily barrels of oil. In Q4 2015, it was pumping 582,900 barrels per day. In Q4 2016, it was pumping 738,500 barrels per day.

Suncor also achieved an improvement in operations. As CEO Steve Williams said, "we have achieved a step change in operating efficiency this year, which has resulted in cash operating costs per barrel at our Oil Sands operations being consistently below $25, excluding the impact of the forest fires." In Q4 2015, the cash operating costs per barrel was over $28.

All of this made it possible for the company to have a great quarter. Net earnings were $531 million, and operating earnings were $636 million. If you take an increase in production, a decrease in costs, and a ~US$25 increase in the price per barrel of oil, you're left with a very lucrative situation.

Because of such a strong quarter, the company announced a 10% increase to its dividend, which now is $0.32 per share. At the current price, that gives the stock a generous 3.04% yield.

But just because Suncor had a strong quarter, does that mean the company can continue to grow?

I think so. Fort Hills project is over 76% completed, and it should generate approximately 194,000 barrels per day. This should start in late 2017. And there's also the Hebron project which should go into production in late 2017. All told, the company is banking on a 13% boost to production, which is lucrative in the event that the price of oil stays where it is.

Should you buy Suncor?

When it comes to oil, I feel most comfortable with Suncor for three reasons.

First, it is incredibly efficient, keeping costs low so in the event the price of oil dips, it can still generate a profit. Second, it is expanding its production aggressively, pushing to the goal of over one million barrels a day. And finally, it's increasing its dividend, making it a stellar long-term stock.

I'm a big fan and believe investors can do no wrong with Suncor.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

default watermark

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/23
Date Created
2017/02/21
Author
jaycodon

default watermark