



Is This the Opportunity Suncor Energy Inc. Has Been Waiting for?

Description

Last week, **Reuters** reported that **Husky Energy Inc.** (TSX:HSE) was considering the sale of some of its eastern Canadian offshore assets. The company reportedly believes these capital-intensive assets are less attractive in the current oil price environment and would rather reinvest the capital in other opportunities. That said, one company that sees opportunity in the Canadian Atlantic is **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), which has been on the lookout for deals in the region and would be the perfect buyer for these assets.

Drilling down into Husky's Atlantic assets

Husky has been operating in the Canadian Atlantic since 2005. The crown jewel of its operations is the White Rose field and its satellite extensions North Amethyst, West White Rose, and South White Rose, where the company is the operator and majority owner. In addition, the company owns a 13% stake in the Terra Nova field, which is operated by Suncor. These assets produced 34,400 barrels of oil per day last quarter, which represented about 10% of its total output.

The company has been working to increase that production and recently finished a new well at the South White Rose extension which is currently producing about 3,000 barrels per day net to Husky. Further, the company has two more White Rose infill wells coming online this year with the first already online and producing 8,600 barrels per day for Husky. In addition, Husky is considering sanctioning the West White Rose extension project.

Husky has partnered with Norway's **Statoil ASA (ADR)** (NYSE:STO) on several recent discoveries in the region, including Mizzen, Harpoon, and Bay du Nord. Husky holds a 35% interest in those fields, the largest of which is Bay du Nord at an estimated 600 million barrels of oil. Additional discoveries could be one the way because Husky plans to drill two more exploration wells with Statoil later this year. Needless to say, Husky controls a compelling position in a region which has ample current production and upside potential.

Why these assets would fit perfectly at Suncor

While Husky is thinking about reducing its exposure to the Canadian Atlantic, that's one region where

Suncor wants to bulk up. That's because last year's wildfires in the country's western oil sands region hit the company hard given that more than 80% of its production comes from that area. That concentrated position has become somewhat of a liability because a more severe wildfire could do long-term damage to Suncor's ability to produce, which is why it plans to mute that risk by boosting its exposure to other areas.

However, instead of adding a new region to its portfolio, Suncor said that it would rather make acquisitions to bulk up its two offshore portfolios in the North Sea and Canadian Atlantic. The company has already taken a stake in an [offshore project in the North Sea](#). Meanwhile, Husky's Canadian offshore assets would certainly fit Suncor's desire to increase its exposure to that area.

Not only would the properties fit geographically, but they'd plug a strategic hole in Suncor's growth pipeline because it doesn't have many major growth projects once the Fort Hills oil sands mine and Hebron offshore field in the Canadian Atlantic come online next year.

As such, Suncor could plug in the West White Rose extension project or the potential development of the Bay du Nord field into its long-range plans. These projects would help Suncor keep its growth train rolling over the long term, especially since its most recent exploration efforts in the Canadian Atlantic [came up dry](#).

Investor takeaway

Suncor needs to diversify away from western Canada and plug new projects into its pipeline to mitigate risk and continue growing. Given its previously stated desire to bolster its offshore portfolio in eastern Canada, it would appear that Husky's assets in the region are a perfect strategic fit.

While there is no guarantee that a deal between these two companies will happen, it is a story line that investors should keep an eye on because it represents a potential needle-moving opportunity for Suncor.

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