Oil Prices Are Dropping: Is Suncor Energy Inc. Safe?

Description

If there's one thing the markets love, it's a scary headline. "Oil touches three-month lows, as U.S. supply swells" read one headline. Another read, "Oil prices slide to lowest in four months on U.S. rig count rises again"*.*

Fortunately, when there is fear, there is opportunity for prudent investors who recognize the opportunity.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is down over 3% in the past week of trading because oil prices have dropped. Oil experienced its largest weekly drop since fall 2016. But just because oil prices have dropped doesn't mean that Suncor is in danger. On the contrary, Suncor is one of the last companies I would worry about when it comes to lower oil for two reasons: first, it's an amazing low-cost producer, and second, when oil prices are low, it finds opportunities to acquire assets.

Suncor has done a lot of acquisitions over the past few years. In 2016, Suncor paid $6.9 billion (including debt) for Canadian Oil Sands. Later in the year, it paid $937 million to buy 5% of the Syncrude project from the Canadian subsidiary of **Murphy Oil Corporation**. Between these two transactions, Suncor's exposure to Syncrude expanded from 12% to 54%, making it the single largest holder in the project.

Both of these deals were incredibly important for Suncor primarily because of an expansion in total production. At the end of 2015, Suncor pumped 582,900 barrels of oil per day. A year later, that jumped to 738,500 barrels of oil per day. This coupled with the drop in operating costs per pumped barrel allowed the company to generate greater margins.

Consider that in 2015, it cost, on average, over $28 per barrel. A year later, the cost was under $25 per barrel. A few dollars per barrel might not sound like much, but when you increase production by close to 150,000 barrels and cut the cost per barrel, profits are going to follow.

Nevertheless, Suncor is still dependent on a higher oil price to maximize its profits. And if oil continues to slide, its margins will be harmed a little. So, do investors have much to worry about?

Much of this hinges on what OPEC does in the coming months. In 2016, the countries agreed to limit their production to ensure that oil prices stay high. However, with oil prices higher, North American producers have been increasing their pumping to maximize their profits. OPEC is not one to lose market share; some analysts believe OPEC might increase its own production, thus pushing supply beyond what demand can handle, which would push the price of oil down.

I have been avoiding oil stocks primarily because the market remains a little too uncertain, and I believe that as a society we are moving away from fossil fuels. Nevertheless, if you are looking for exposure to oil, there are few companies as secure and robust as Suncor. It might not be a high-flying stock, but if oil prices drop, the company will still generate a profit thanks to its low operating costs and its smart acquisitions. I very much believe Suncor is safe for quite some time.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/09/17
Date Created
2017/03/14
Author
jaycodon