



Oil Is Choppy: Should You Buy Suncor Energy Inc.?

Description

Oil continues to be a choppy, roller-coaster commodity. The price has slowly risen and then dipped hard before recovering again. However, one thing you will notice is that, for the most part, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is relatively calm. It ebbs and flows, but it doesn't have hard drops or rises like smaller companies do.

That's because of how much scale Suncor has been able to amass over the past few years with low oil prices. Its management team recognized that +\$100 oil was not feasible for the long term, so they planned for when oil prices would drop again. And when oil prices did drop, Suncor went on the attack, while other companies were reeling in pain.

Suncor expanded production. It bought Canadian Oil Sands for \$6.9 billion, which gave it a massive boost to the Syncrude project. It then bought the 5% stake in the Syncrude project that the Canadian subsidiary of **Murphy Oil Corporation** owned for \$937 million. These two deals boosted its ownership from 12% to 54%. The importance of this deal can't be overstated –the project is estimated to have production capacity until the end of the century.

But Suncor didn't stop there. It also expanded its stake in the Fort Hills project, boosting its ownership to 51%. Fort Hills has been a bit of a curse and an expensive project, but the expectation is that production will start by the end of the year — a big win.

In 2015, the company pumped 582,900 barrels of oil per day. At the end of 2016, it reported that it had boosted that to 738,500 barrels of oil per day. Clearly, its expansion in the Syncrude project helped. And by the end of 2017, production should be higher once Fort Hills begins production.

Another way Suncor dealt with cratering oil prices was that it focused heavily on reducing its operating costs. When oil is at \$100, there's a lot of wiggle room on costs. But when oil tanks, companies need to be as efficient as possible. And Suncor is. It was spending \$28 per barrel of oil pumped back in Q4 2015, which is not all that bad. However, Suncor focused on getting better. By Q4 2016, its cost per barrel pumped had dropped to \$24.95. When you're talking about 738,500 barrels a day, a \$3 change is equal to \$66,465,000.

Fundamentally, investing in Suncor is a bet on oil. Long term, I believe oil won't be as necessary because of renewable energy sources and the rise in electric cars. However, it will take time for those sources to reach scale, so if you're going to buy any oil company, Suncor is the one to buy.

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