



## What Can Investors Expect From Suncor Energy Inc.?

### Description

Oil companies used to be amazing investments. The price of oil was over \$100 a barrel and companies were printing money. But those days are long gone, and now only the smart and hyper-efficient survive. While I personally have no interest in oil companies, other investors are still looking for opportunities in the oil patch.

Of all the Canadian oil companies, the one that I would feel most comfortable owning is **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). It was never a company that banked on +\$100 oil; it always expected that oil would drop one day. Due to this belief, Suncor focused on keeping its costs as low as possible. Therefore, when prices did tank, it was in a position to grow through acquisition because many of its competitors were drowning in debt.

Suncor's focus is on the Syncrude and Fort Hills project. It acquired Canadian Oil Sands for \$6.9 billion and then paid another \$937 million for the 5% stake in the Syncrude project that the **Murphy Oil Corporation** Canadian subsidiary owned. Ownership was boosted to 54% from 12%. The company also expanded its ownership to 51% of the Fort Hills project, which is expected to begin production at the end of the year.

Both of these deals are important because they'll allow Suncor to increase the number of daily barrels it produces. In 2015, it pumped 582,900 barrels of oil per day. A year later, that grew to 738,500 barrels. I anticipate this will be even higher next year if the Fort Hills and Hebron projects come online.

Not only has Suncor increased production, but it has reduced its costs. In Q4 2015, it spent \$28 per barrel of oil pumped. A year later, Suncor had cut costs to \$24.95 per barrel. The lower this cost goes, the less of a shock negative fluctuations in oil prices will have on the company.

But Suncor is not just about pumping oil. It has a lucrative refinery business that processed 429,900 barrels per day in Q1 2017. And it sells petroleum through its Petro-Canada marketing brand. Essentially, it can pull a barrel of oil out of the ground, refine it, and then sell it at a Petro-Canada location, generating cash flow in every step of the process.

On the topic of cash flow, the company is in a good position. In Q1 2017, its cash flow provided by

operating activities was \$1.628 billion, or \$0.98 per common share.

In its earnings release, Suncor revealed that it would be repurchasing up to \$2 billion in shares. Further, the company is a relatively strong dividend company, paying \$0.32 per quarter to investors. This 3.1% yield has grown over time and, so long as oil prices don't crater, the company's cash flow more than covers the dividend.

### **What should you do?**

I'm not particularly bullish on oil companies. And with so much geopolitical uncertainty, the price can rise and fall uncontrollably, making it difficult for company managers to properly plan. Nevertheless, Suncor is one of the best companies in the oil patch. So, while I'm not a buyer, for those that do want exposure to oil, there are few options as secure as Suncor. And investors can expect that the dividend will continue coming and the price will stay relatively constant.

### **CATEGORY**

1. Energy Stocks
2. Investing

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1. NYSE:SU (Suncor Energy Inc.)
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