



Is Suncor Energy Inc. Still a Safe Contrarian Play?

Description

Many companies operating in Canada's oil sands are on their knees right now, and with some pundits expecting oil prices to remain lower for a longer period of time, contrarian investors looking for a turnaround may have to wait a lot longer than originally expected to see their investments pay off.

Many foreign investors have lost confidence in Alberta's oil patch. Canadian gurus like Kevin O'Leary seem to be bearish on Canada's energy sector as well, saying there's too much uncertainty involved with an oil investment right now.

When it comes to the oil sands, everyone is running scared. But if you're an aggressive contrarian investor with a bullish thesis on the oil sands, it might be time to start buying shares of some of the beaten-up names. After all, as Warren Buffett once said, "...be fearful when others are greedy, and greedy when others are fearful." Everyone is fearful right now, but is it really safe to be greedy? Mr. Buffett recently threw in the towel on **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

Why all the fear?

The low oil price environment could be here to stay for the long run, carbon taxes and border taxes are still up in the air, and oil sands are incredibly expensive to operate.

Oil sands aren't great for the environment either, so hefty clean-up expenses can also be expected. Some of the more bearish pundits out there believe the oil sands may be abandoned if things continue to get worse.

I'm not sure that will happen, but investors should always consider the worst-case scenario. If oil sands abandonment does happen, a lot of investors could lose their shirts, so an investment in the oil sands comes with a high degree of risk.

For those looking to minimize risk while still being able to own a piece of Canada's oil patch, there's Suncor.

Suncor is arguably the best operator in the oil sands and is most likely the safest bet if you want a

piece of the oil sands. The management team has done a fantastic job of driving operational efficiency, so if oil prices fall even further, Suncor would be head and shoulders above its peers in the oil patch.

The company is putting its foot on the pedal when it comes to production growth. It's expected that production will increase 13% this year with capex decreasing by about \$1 billion to the range of \$4.8-5.2 billion.

If you don't want to risk losing your shirt, Suncor is a great buy since you can collect the stable 3.32% dividend yield while you wait for a turnaround over the next few years. Suncor has a solid balance sheet for an oil sands operator, so you can sleep safely at night knowing that the dividend will most likely be kept intact during these tough times.

Although Suncor will be less volatile than its financially distressed peers, investors should still brace themselves for a roller-coaster ride over the next few years. Suncor is a "safe" way to play the oil sands, but large capital losses are a real possibility.

Personally, I'm on the sidelines because there's reason to believe things could get a lot uglier from here, and Suncor is not immune to industry-wide headwinds.

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