Should Investors Be Loading Up on Suncor Energy Inc.?

Description

With shares down over 14% since the middle of May, investors looking to get cheaper shares of **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) are likely getting antsy at the opportunity to own this solid, low-cost producer of oil for 14% less than if they had purchased shares in May.

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The big driver of this drop in share price is the unfortunate reality that oil prices continue to weaken. The weakness has been brought on by increased production in shale as well as uncertainty over what OPEC is likely to do. The last run-up in the oil price was because of the Vienna crude oil agreement, where OPEC and other non-OPEC members agreed to reduce their production to ensure oil prices stayed up.

But with oil trading under US$50 a barrel, there's concern that oil companies are going to suffer and will be unable to generate enough cash flow to either pay debts or continue paying dividends to investors.

Fortunately, that's not a problem for Suncor. Unlike many of its competitors, it is a low-cost producer of oil. In 2011, it had $39.05 in operating costs per barrel of oil sands. Fast forward to Q1 2017, and the company has reduced that to $22.55. By pushing its costs so much lower, it's able to continue generating strong returns, even when oil prices drop.

Even better, it has significantly boosted its upstream production to 725,100 barrels of oil equivalent per day compared to 691,400 barrels of oil equivalent per day in Q1 2016. And in 2015, it only generated 582,900 barrels per day.

To achieve this, Suncor made a series of smart acquisitions to boost its ownership of the Syncrude project from 12% to 54%, spending close to $8 billion. Of the total pot, 448,500 barrels came from its oil sands, of which Syncrude accounted for 142,100 barrels. It also boosted its ownership in the Fort Hills project to 51% through acquisition, but that won't start providing returns until later this year.

Going forward, the company has huge plans for its oil sands to generate even *more* oil. By 2019, it expects to be generating 700 million barrels per day from its oil sands compared to the 448,500 barrels last quarter.

And Suncor won't stop there. The company also has a strong downstream business, which allowed it to refine 429,900 barrels of oil per day. By owning much of its supply chain, it is able to extract additional revenue from each barrel of oil it finds.

Suncor is also incredibly shareholder friendly. It has increased the dividend for 15 consecutive years, irrespective of the price of oil. It pays a quarterly $0.32 per share in dividends. It also announced a $2 billion share-repurchase program which is expected to be completed over the next year. And with where shares are now, investors are getting this strong dividend at a yield of 3.4%.

So, in many respects, investors should probably be loading up on this company, though keep a small amount of cash available in the event the price drops further. And over the next few years, the returns could be quite lucrative, especially with that strong yield. So, take advantage of the market's irrational reaction and start buying shares.

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