Suncor Energy Inc.: A Strong Quarter and Room for More Growth

Description

Although most energy companies are having difficulty generating profits due to where oil prices are, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) continues to execute its business plan, which it started a few years ago. And, if the recent second-quarter results are any sign, the company is doing rather well.

Suncor reported a net profit of $435 million compared to a loss of $735 million during the second quarter of 2016. Forest fires in northern Alberta were the primary cause for a loss in production last year, but this year, things were closer to full production. What's appealing about the numbers is that multiple sources contributed.

The company's production saw a massive increase to 539,100 barrels of oil equivalent per day, up 208,400 barrels from Q2 2016. This is despite the Syncrude plant having to run at reduced pace since March and full production across its other projects taking longer to achieve than expected.

However, on the refining side, Suncor boosted throughput to 435,500 barrels per day compared to 400,200 in the previous year. This is thanks to increased supply from its upstream business but to also reduced maintenance. This is one of the big reasons I really like Suncor; it generates revenue from multiple parts of the supply chain.

Going forward, I expect the company to continue adding more production to its network. The Fort Hills project is more than 90% complete and should begin delivering oil by the end of 2017. Hebron, its offshore drilling project, is also expected to start producing oil by end of year. All in all, you've got a diverse business that has a lot more supply on the way.

However, I believe there's another way that Suncor is going to be able to boost growth even more.

On July 27, Suncor announced that **Total SA** (NYSE:TOT), which owns 29.2% of the Fort Hills project, would provide no further funding for the project. Steve Williams, CEO of Suncor, said, "Total has chosen not to approve or provide additional project sanction funding and as a result, we are now in the early stages of a commercial dispute."

You might read that and be worried because Fort Hills is expected to provide 194,000 barrels per day.

But like I said above, this project is still on schedule, and Suncor has no worries. More importantly, I believe this is a tactic for Total SA to try to get out of its Fort Hills exposure entirely. In 2015, it sold 10% to Suncor, and earlier this year, Total wrote off a portion of the project due to cost increases.

Ultimately, I expect that Suncor and Total will reach an agreement that will result in Suncor taking over the entire position. I am in favour of this because it would add even more production for Suncor. At 50.8% of the project, Suncor gets about 98,500 barrels per day. At 80%, it would produce 155,200 barrels per day.

This will likely be a drawn-out process, and the sale may never happen, but it’s one opportunity that wouldn’t surprise me.

Suncor is a low-cost producer that generates profits despite weak oil prices. As production continues to ramp up, I expect the entire Suncor supply chain to generate lucrative returns. And along the way, it’ll spend money on buying back shares — the company spent $300 million buying back its shares in Q2 alone.

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