Should Suncor Energy Inc. Be on Your Buy List?

Description

Oil prices have staged modest recovery in recent months, and investors are wondering which names in the energy sector might be interesting picks.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see if it deserves to be in your portfolio.

Integrated business lines

Suncor is best known as an oil sands giant, but the company also owns four refineries and more than 1,500 Petro-Canada service stations.

The downstream assets provide a nice hedge against the impact of lower oil prices on the production business and are the main reason Suncor's stock has held up better than many of its peers through the downturn.

In fact, Suncor currently trades at $43 per share, which is not far from the $46 high it achieved when WTI oil was US$100 per barrel.

Growth

Management has taken advantage of the oil rout to add strategic assets at attractive prices, including the purchase of Canadian Oil Sands, which gave Suncor a majority position in Syncrude.

As oil prices recover, Suncor should see a strong return on the investments.

At the same time, Suncor continues to make progress on its organic projects, including Fort Hills and Hebron, which are both expected to begin commercial production by the end of 2017.

The shift from development to production on such large projects should boost revenue and cash flow, while relieving pressure on the capital plan. As long as the facilities are cash flow positive, the result should be more money available to increase payouts to shareholders.

Dividends

Suncor isn't considered a dividend stock by many investors, but the company has a strong track record of raising the payout, and the distribution currently provides a yield of 3%.

Risks

WTI oil currently trades at close to US$50 per barrel, so it has a long way to go before it recoups the losses incurred over the past three years.

Analyst predictions are all over the map, with some calling for a dip back below US$40 per barrel, and others forecasting a move up to US$70 in the next few years.

OPEC is trying to reduce global supply to balance the market, but growing production in the United States appears to be hindering those efforts. If OPEC's efforts fail, there is a risk oil could give back its recent gains, and a strong move to the downside would likely impact Suncor.

Another issue to consider is the lack of pipeline capacity to get oil sands production to global markets. The Northern Gateway and Energy East projects were supposed to address this problem, but both projects are pretty much dead. Without adequate access to international buyers, Canadian producers could continue to see their oil priced at a discount.

Should you buy?

You have to be a long-term oil bull to own any of the producers. If you fall in that camp, Suncor is attractive. The stock provides a decent dividend to ride out volatility and offers reasonable upside when oil prices move higher.

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