Why Suncor Energy Inc. Remains the Best of Canada's Oil Patch

Description

With oil continuing to rise, posting what appears to be the most significant bid for a full rebound in Canada's most watched commodity market, investors are now beginning to assess which value plays within the Canadian oil patch offer the greatest upside in what may not be a "lower for longer" status quo in the oil patch much longer.

While many firms have seen valuations increase in lockstep with the recently rising price of oil, few have seen the stability of companies such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) in recent years. Holding relatively steady through the recent bear market in oil, Suncor's share price has maintained its robust nature as the leader in Canada's oil production industry, producing increasingly bullish results, despite continuing to invest heavily in its infrastructure and long-term margin-enhancing opportunities available to only a few of the country's largest producers.

Suncor recently reported Q3 2017 results, which surprised the market in a good way. The producer increased its upstream production numbers to record levels, producing nearly 8% more oil on a year-to-date basis, while reducing its cash operating costs for its oil sands operations to below $22 per barrel — numbers which allow the oil producer to continue earning steady profits, despite a strengthening Canadian dollar and other headwinds relating to a supply glut, which has (only very slowly) begun to diminish on robust global demand.

Nearly tripling the company's quarterly earnings on a year-over-year basis, short-term sentiment indeed remains strong for prospective Suncor shareholders. What I think should be the biggest driver of the company's share price over the medium to long term, however, are the company's excellent margins in an industry plagued by profitability and high debt loads.

Suncor remains Canada's premier producer in terms of operational breakeven cash costs in an oil sands industry with relatively high breakeven values. Comparing Suncor's approximately $37 breakeven cost for the company's oil sands operations with other competitors in the industry (larger competitors average between $40 and $60 per barrel), should oil maintain an average price above $50 per barrel for an extended period of time, Suncor's production mix may suddenly become the envy of Canadian investors, spurring additional long-term investment from those who believe the rebound is only beginning.

With a dividend of nearly 3%, Suncor rewards investors willing to buy and hold steady for the long term. Despite long-term headwinds to the Canadian oil patch, many investors (including myself) continue to advocate as a reason for caution, holding Suncor as part of a well-diversified portfolio remains a solid proposition today.

Stay Foolish, my friends.

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