Time to Buy Suncor Energy Inc. Stock as Oil Starts the New Year Above $60

Description

For oil bulls, there is a lot to cheer about in 2018. The new year is starting with U.S. oil prices above $60 a barrel for the first time since mid-2015 after registering a 12% gain in 2017.

These gains are indicating that the current strength in energy markets is going to stay due to strong demand and declining global inventories.

International benchmark Brent crude futures also finished the year on a strong note with a 17% jump, supported by supply cuts by OPEC producers and Russia.

The gains, supported by demand from China and India, suggest the oil markets are leaving behind that supply glut, which kept the prices depressed and forced many oil giants to cut their production, sell assets, and slash their dividends.

This is a great development for equity investors, who want to buy some top-quality oil stocks to benefit from this sustained recovery in oil prices.

For such investors, I strongly recommend **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). Here are the top three reasons that make me bullish about this stock.

Suncor's unique business model

Unlike many producers in Canada's oil sands, Suncor is a diversified energy company which is well positioned to benefit from the recovering oil markets.

The company not only holds the largest reserves in the oil sands, but it also owns and operates four refineries, Canada's largest ethanol plant, wind farms, and 1,500 retail outlets.

Since Suncor became publicly traded in 1992, daily oil sands production has increased by 600%. Over the same period, Suncor's total return on investment was 5173% against the **S&P 500** total shareholders' return of 373%.

Suncor is in a much better position to produce more cash from its diversified operations than a normal oil producer. Refinery utilization in the third quarter was 100% with throughput rising to 466,800 barrel a day.

Operational restructuring

Suncor used the prolonged downturn in oil prices to its advantage. During the past five years, it improved its operational efficiency and cut costs where it could. After five years of restructuring and re-balancing, Suncor is in a much better position to make the most of its invested dollars.

From $39 a barrel in 2011, Suncor was able to cut its production cost to ~$22 a barrel in the third quarter — the lowest rate in a decade.

The company also bought assets that were best suited to its business model and that it could quickly deploy to generate more income.

Superior growth in earnings

For income investors, these improvements mean better earnings and more upside potential in the future. Suncor is targeting a compounded annual growth rate of 10-12% in oil sands and 7-8% overall until 2020.

In the most recent quarter, Suncor's earnings per share rose to $0.78 from $0.24 a share when compared to the same period a year ago.

Suncor has a strong appeal for income investors due to its solid track record of paying dividends even during the worst oil downturn. The company offers a 3.15% annual dividend yield. Its quarterly dividend payout has grown to $0.32 a share from $0.05 a share a decade ago.

The bottom line

Those who remained loyal to Suncor during the oil downturn have done great. During the past two years, the stock has surged 39%, reaching the level where it was trading in the middle of 2014.

Trading at $46.15 a share, I think Suncor stock is a good buy for long-term investors who want a slow but steady return on their capital, as oil markets recover, and the demand/supply balance is restored.

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Date
2025/09/16
Date Created
2018/01/02
Author
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