Should Suncor Energy Inc. Be on Your Buy List Today?

Description

Oil prices continue to drift higher, and investors are wondering which names in the energy patch might make good additions to their portfolios.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see if it is an attractive pick today.

Diversified business line

Suncor is primarily known for its oil sands operations, but the company also owns refineries and more than 1,500 Petro-Canada service stations.

The downstream assets balance out the revenue stream and have served as a nice hedge during the downturn.

Lower oil input costs can result in improved margins for the refining operations, especially when the price spread between WTI and Brent increases.

On the retail side, falling oil prices generally translate into lower prices for transport fuel. As a result, people tend to drive more, and that means additional trips to the gas station.

The integrated nature of Suncor's businesses is a big reason the stock has held up so well in the past three years. In fact, Suncor currently trades higher than it did when WTI oil was above US$100 per barrel.

Growth

WTI oil currently trades at US$61.50 per barrel, up from about US$43 in June. The timing of the recovery is perfect for Suncor, as the company is ramping up production at new facilities.

The Fort Hills oil sands project, which is majority owned by Suncor, is now complete and should be at 90% of production capacity by the end of 2018.

In addition, Suncor's Hebron offshore project began production in November.

Efficiency gains

Management has done a good job of reducing costs in recent years. The company reported Q3 2017 oil sands cash operating costs of $21.60 per barrel. This was the lowest cost structure the company has seen in more than a decade.

Dividends

Suncor isn't widely viewed as a dividend play, but the company has a strong track record of raising the payout, and that trend is expected to continue.

At the time of writing, the quarterly payout of $0.32 per share provides a yield of 2.7%.

Should you buy?

Opinions remain split on where oil is headed.

The oil bulls say OPEC appears committed to its goal of reducing oil supplies by 1.8 million barrels per day, while global demand remains strong.

Oil bears say the rally since June is just a head fake before another downturn, as U.S. oil production continues to rise and could hit a record in 2018. This might provide a strong headwind to any further gains in oil prices.

If you like oil as a long-term play, but are concerned about additional volatility in the near term, Suncor is an attractive way to play the sector. The integrated business lines provide a balanced revenue stream and a hedge against another dip. In the event oil's recovery continues, Suncor should benefit from a broad-based tailwind in the energy sector.

As always, it's anyone's guess what the future holds.

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