Here Is Why Suncor Energy Inc. Stock Is a Safe Bet on Rising Oil Prices

Description

As oil prices maintain their bullish trend, some investors are wondering if this is the right time to start buying oil stocks.

Oil prices have surged more than 13% since early December, with the U.S. West Texas Intermediate (WTI) crude trading at $63.57 a barrel at the time of writing, the highest level since December 2014. Let's find out if **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), Canada's largest producer in the oil sand, offers some value.

Suncor's advantage

I have been recommending Suncor stock for almost six months now, and the main reason for my bullish call on this company is not based on higher oil prices.

The biggest factor that makes Suncor different from other Canadian oil producers is its strong operational readiness to take advantage of the changing market conditions.

Since the 2014 oil downturn, Suncor management has undertaken an aggressive cost-cutting program. During the past five years, Suncor's cost to dig a barrel of crude oil has fallen to $25 from $37 in 2013.

This is a huge achievement for an oil sands producer, who will always find it expensive to mine the commodity than producers who operate traditional fields.

With crude prices trading more than $60 a barrel, Suncor expects to generate over $10 billion in funds from operations in 2018, giving it a cash flow yield of ~15%.

Asset diversification

Suncor is also a great diversification play in the Canadian oil sands. 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.

As oil prices recover, and refining margins strengthen, Suncor is in a much better position to produce more cash from its diversified operations than a normal oil producer.

But there are some bottlenecks for Canadian producers. The pipeline capacity constraints combined with increasing Canadian production is forcing some producers to ship their products through more costly mode of transportation, such as rail.

This constraint is eating up these producers' margins and widening the price difference between the Canadian crude benchmark, Western Canadian Select, and West Texas intermediate. This long-term constraint, however, makes Suncor more appealing for investors due to its diversified operations.

The bottom line

Trading at $47, Suncor stock has surged 28% during the past six months. This price appreciation suggests that Suncor is well positioned to produce better returns for investors, despite some pipeline capacity constraints.

Other than capital gains, Suncor also has a great income appeal for long-term investors. Suncor has a solid history of rewarding investors with growing dividends. The company pays quarterly payout of $0.32 a share with a dividend yield of 2.7%.

Who knows where oil will be trading in the next two to three years? Smart investors know that Suncor's efficient operations and its diversified assets will be there to help the company crank out decent returns for them.

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