Suncor Energy Inc.: Patience Is Paying Off

Description

Investing in oil companies has been a frustrating experience over the past couple of years. With a supply glut, the price pushed into the $30s, hurting inefficient oil producers. But where there was pain, there was also an opportunity with **Suncor Energy Inc.** (TSX:SU)(NYSE:SU). And for those investors that exhibited patience, they're being rewarded.

For years now, Suncor has been working hard to become the most efficient oil producer on the market. In Q3 2017, its oil sands operations' cash operating costs per barrel was $21.60, the lowest it has been in over a decade. In Q4 2016, it was $24.95, and in Q4 2015, it was $28 per barrel.

In fewer than two years, the company reduced its cost per barrel by $6.40. The savings are immense when you multiply that with 739,900, the number of barrels of oil Suncor produced each day in Q3. You're looking at a savings of $4,735,360 per day. Over the entire quarter, you're looking at $426,182,400 saved. Efficiency is the name of the game, and Suncor has excelled at it.

Another thing that has changed since Q4 2015 is the scale of the operation. Suncor purchased Canadian Oil Sands for $6.6 billion and then spent an additional $8 billion to boost its ownership of the Syncrude project from 12% to 54%. And just recently, Suncor expanded its stake in the Fort Hills project to 53.06% from around 51%.

In Q4 2015, Suncor produced 582,900. Fewer than two years later, the company is pumping 739,900 barrels. So, you've got a machine that is more efficient that is *also* pumping far more oil than it ever has before.

And then there's the price of oil. For the first time ever, oil sands companies are, perhaps temporarily, exhibiting some control. In the past, whenever the price of oil increased, companies would ramp up production, which would saturate the market, thus dropping the price. This time around, production is being more controlled, which allows the price to stay higher.

Ultimately, what all of this points to is a success for those that were patient. While other companies were suffering, investors of Suncor watched as the company made large-scale acquisitions in an effort to boost the business. And ultimately, they were rewarded, because now production is much higher, costs are much lower, and the price of oil is higher than it’s been in years.

So, we’re left with a primary question: Should potential investors be buying Suncor, or is it better to avoid it? And if it is better to avoid Suncor, should current investors get out?

For potential investors, owning Suncor is a good play for those that believe in oil. However, it is very much a slow and steady type of company, so you should expect the stock price to rise at a steady clip versus growth stocks that can rise rather quickly.

For current investors, I don’t see any reason you wouldn’t continue owning it. Depending on when you bought it, your yield on cost is probably in a solid position, so the quarterly dividend is predictable income. It can sometimes be very difficult to find quality dividend stocks, so when you’ve got one, you should hold it.

But for those of us that may not be fans of oil, it might be better to look for other opportunities.

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