Could Suncor Energy Inc. Hit $100?

Description

Energy stocks are finally starting to bounce back, and investors with an eye on riding the resurgence to big gains are wondering which companies might be attractive today.

Sifting through the wreckage

Many of the sector's beleaguered names still carry significant risk due to high debt levels and an inability to boost capital spending enough to ramp up production to the point where they can take advantage of improving margins to fix the balance sheet.

That hasn't been the case, however, with a few of the industry's top players, including **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), which currently trades at its highest level in nine years.

Let's take a look at Canada's largest integrated energy company to see if it deserves to be on your buy list today.

Diversified business units

Suncor is primarily known for its oil sands operations, but the company also owns large refineries and more than 1,500 Petro-Canada retail stations. The downstream assets carried the company through the oil rout and helped keep the stock from seeing the meltdown that occurred with many of the pure-play producers.

Growth

A war chest of cash on the balance sheet also contributed to the stock's resilience, and Suncor took advantage of its strong financial position to add strategic assets at attractive prices, including the takeover of Canadian Oil Sands, which gave Suncor a majority interest in Syncrude.

In addition, management pushed ahead with large organic developments through the downturn, benefiting from falling costs as construction companies struggled to find work. In hindsight, the decision was a wise one, as the rally in WTI oil prices off the June lows near US$42 per barrel to the current price near US$67 came at just the right moment. Suncor completed the Fort Hills and Hebron projects in late 2017, and investors should benefit as the facilities ramp up production this year, and beyond.

Dividends

Rising oil prices and growing production combined with lower capital spending should result in strong cash flow available for distributions. Management is obviously comfortable with Suncor's revenue and cash flow outlook. The company raised the 2018 dividend by 12.5%.

That's an impressive move in an industry where many of the former dividend kings have either abandoned or significantly reduced their payouts in an effort to preserve cash flow.

Could Suncor's stock price hit $100 per share?

Suncor currently trades at $49 per share, up from a low of about $30 in early 2016. For the stock to double, oil prices would have to move sharply higher. In addition, progress would have to be made on the pipeline bottlenecks in western Canada.

It might not happen by the end of 2018, but higher oil prices are certainly possible, and I wouldn't be surprised to see both Keystone XL and the Trans Mountain expansion eventually get built. As such, investors could see Suncor take a run at $100 in the coming years.

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