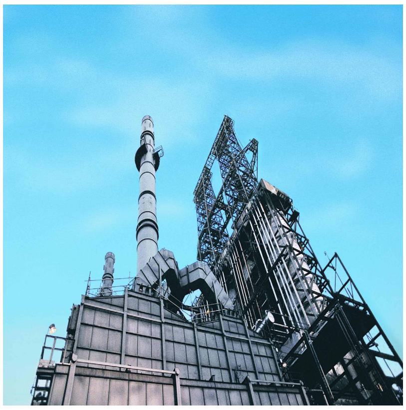

Is Suncor Energy Inc. Stock Still a Good Value After Breaking Multi-Year Highs?

Description

Oil's recent rally has caused the general public to be interested in the energy sector again. After many foreign investors threw in the towel on their investments in Alberta's troubled oil patch, it was difficult for retail investors to remain confident in their holdings, and as a result, a majority of Canadians have either underweighted energy holdings or have chosen to avoid the sector as a whole, despite the TSX being extremely overweight in traditional energy names.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is an integrated energy business that really stands out for investors who want to make a safe long-term investment and not a gamble on a firm that could end up destroying shareholder value should another oil collapse occur, like it did in 2014. Due to the uneconomical nature of oil sands operations relative to their conventional counterparts, many Alberta-based oil sands operators are highly dependent on higher oil prices to grow and properly deliver a satisfactory return on invested capital.

Carbon taxes and other regulatory slowdowns have made it notoriously difficult for any investor to want to consider putting cash down on an Albertan oil sands producer. But with Suncor, lower oil prices aren't as detrimental to the company as they are to other pure oil sands operators.

Suncor's integrated business allows for a steady stream of operating cash flow that's more than enough to support the dividend, even during times when many of its peers are slashing their dividends along with their forward-looking outlooks. Suncor's pristine balance sheet also allows for potential M&A opportunities in a low oil price environment, where management can take advantage of competing firms that were ill prepared for sudden collapses in oil.

Like other oil sands operators, Suncor relies on higher oil prices to turn on the taps on many of the oil sands projects that are needed for meaningful growth. If oil prices head lower though, Suncor will be able to put its growth operations on pause to better weather the storm and focus efforts on opportunities to scoop up oil sands assets at a huge discount to their intrinsic value.

In this regard, Suncor's ability to adapt to any oil price environment is quite remarkable, so investors who need an incentive to stick around have Suncor's dividend, which currently yields 2.93%, to look forward to as oil prices fluctuate.

Suncor is a wonderful “all-weather” energy stock relative to peers, but the real question is whether or not investors should consider accumulating shares after oil’s recent run.

Today, WTI is just shy of US$70, and with Donald Trump tweeting his displeasure about higher oil prices, it’s possible that he could take action over the next year in order to send “artificially high” oil prices back down again. Seeing as Trump has kept his promises regarding several controversial issues that were deemed far-fetched, I think the probability of Trump taking action to bring down oil prices is high. As such, Suncor and many other firms may begin to surrender their recent gains.

Suncor is arguably one of the safest ways to play Alberta’s oil sands; however, the stock is just an “add-to-your-watch-list” candidate for now in case shares pull back to more reasonable levels (low $40s).

Shares are far too rich at these levels, and I believe many investors are under the assumption that WTI will continue moving higher past the US$70 mark. The more probable scenario is a pullback to the low US$50 levels — a level where many of Suncor’s promising growth projects would not generate a very attractive return on capital, despite being considerably higher than the company-wide breakeven level of US$40.

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