



## Is Suncor Energy Inc. (TSX:SU) a Top Stock Pick Today?

### Description

A recovery in oil prices over the past year has reignited investor interest in the [energy](#) sector.

Let's take a look at **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) to see if it deserves to be in your portfolio right now.

### Integrated business model

Suncor is best known for its oil sands operations, but the company also owns large refineries and more than 1,500 Petro-Canada retail locations. The downstream assets provide a nice hedge against falling oil prices and are a big reason Suncor's stock held up so well during the oil rout.

Management took advantage of the downturn to add strategic assets at attractive prices, and the strong balance sheet allowed the company to move ahead with large development projects, including Fort Hills and Hebron.

### Earnings

Suncor reported steady Q1 2018 results, and the good times look set to continue.

Operating earnings came in at \$985 million, or \$0.60 per share, compared to \$812 million, or \$0.49 per share, in the same period last year.

Improved oil pricing, increased refining margins, refinery utilization of 98%, and strong in situ oil sands production contributed to the strong numbers.

### Outlook

Fort Hills and Hebron began production in late 2017. The company says the reduction growth capital spending in Q1 was offset by increased sustaining capital expenditures, as production ramped up at Fort Hills and Hebron.

Once the two facilities hit full production, investors should see the benefits of higher production and a

reduction in capital spending.

## Dividends

Suncor raised the dividend by 12.5% for 2018. The big increase is a sign that management is comfortable with the revenue and cash flow outlook for the coming years.

At the time of writing, the stock provides a [yield](#) of 2.8%.

## Returns

Long-term investors have done well with this stock. A \$10,000 investment in Suncor 20 years ago would be worth more than \$100,000 today with the dividends reinvested.

## Risks

Pipeline bottlenecks remain a challenge for Canadian oil sands producers, and that situation might not get resolved in the near term, despite the federal government's recently announced acquisition of the Trans Mountain pipeline expansion project.

Western Canadian Select (WCS) oil trades at a discount to WTI pricing due to the lack of access to international markets. The differential can change significantly in short periods of time, as we have seen this year, making it harder for investors to evaluate some of the sector's stocks.

## Should you buy?

Oil prices have started to give back some of their gains. WTI is down from US\$72 per barrel a few weeks ago to US\$64 today. WCS is down from US\$56 to US\$43. The sharp pullback is a reminder that investors should be prepared for ongoing volatility in the oil market.

That said, Suncor is in a good place today, and any positive pipeline developments combined with a continued recovery in oil prices could send the stock much higher in the coming years. If you are an oil bull and want to own a top-quality player with a diversified revenue stream, Suncor deserves to be on your radar.

## CATEGORY

1. Energy Stocks
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