Suncor (TSX:SU) Proves Resilient in Yet Another Strong Quarter

Description

Suncor Energy (TSX:SU)(NYSE:SU) released its first-quarter results last week, which showed a lot of positives. Despite what was a strong quarter that showed sales slightly rising by 2% year over year and profits nearly doubling, the stock didn't see much bullishness from investors. The company reported earnings per share of $0.93 for the quarter, which was well above the $0.53 expected by analysts.

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Let's take a closer look at the results to see what was behind the strong showing and whether the stock is a good buy today.

Other income and foreign exchange provide Suncor with a big boost

A key reason behind the stronger profit in Q1 this year was that Suncor received a $363 million insurance payment related to its Libyan assets. In addition, the company had a positive swing related to gains and losses for the quarter, which added another $72 million to its top line. Investment and interest income of $50 million was also well up from the previous year when Suncor generated just $9 million.

These items all helped Suncor achieve a much stronger profit, as the company was already in the black from just its operating revenues, which, at just under $9 billion, were already well above its operating expenses for the quarter. Although the company didn't benefit from gains related to an asset exchange and disposal like it did a year ago, its expenses were, however, helped as result of foreign exchange on U.S. debt, which helped reduce the company's financing expenses this year. Last year, Suncor saw foreign exchange add $337 million to its financing expenses, whereas this past quarter it got a benefit of $295 million for a total swing of $632 million.

And so while pre-tax earnings of $2 billion were well up from the $1.1 billion generated last year, foreign exchange and insurance payouts were the driving forces behind the improvement. With minimal growth in operating revenues and very comparable operating expenses, there weren't any big reasons for investors to get excited for these results, especially since the items behind the improvement were non-recurring.

Production up despite cuts

During Q1, Suncor's production in the oil sands was up 15%, rising from 571,700 barrels per day last year up to 657,200 this past quarter. It's a big improvement, despite the cuts that were put into place by the Alberta government. Suncor credits improved asset utilization along with increased production at its Fort Hills location for the increase in production, which would have been even higher if not for the mandatory cuts.

Bottom line

Overall, the results in Q1 looked a lot less impressive than they seemed at first glance for Suncor. However, what's encouraging is that even with production cuts, the company was still able to achieve more output and see an improvement in both its top and bottom lines. And longer term, the cuts will hopefully provide a stronger price for Western Canada Select, which will help Suncor benefit in future quarters as well.

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