



## Why Suncor Energy (TSX:SU) May Be Ready for a Breakout

### Description

The future is beginning to look better in Alberta. It's no secret it has been pretty dismal over the last few years, but with last month's election decisively choosing Jason Kenney and the UCP party, the mood is slowly changing. The introduction of a political party that is more energy friendly is the first step to creating a better environment to attract investors, both domestic and foreign.

The next step to get investment flowing back into Alberta is to begin to build pipelines. The lack of pipelines and therefore lack of ability to sell its commodities has been a major problem. Not only are companies losing out to foreign competitors, but investors from around the world have been pulling their money. Some companies have fared better than others due to their organizational structure and segments they operate in.

One of the top favourites among analysts and investors is **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). Suncor is considered by most a benchmark for the energy industry. It is large and integrated, which helps it to perform well in good times but also mitigate losses during the bad times. It is also very well run and well financed, which allows it to make strategic investments when opportunities present themselves.

The main reason why investors tend to [favour Suncor](#) is due to its organizational structure. By being a fully integrated company, Suncor lowers its exposure to commodity prices. This allows the downstream operations to thrive when pricing differentials widen, acting as a natural hedge for its upstream activities.

Another very attractive feature is the company's ability to generate massive cash flow. In 2018, Suncor generated \$6.25 of cash flow per share (CFPS). That was up 14% from 2017 CFPS of \$5.47. This impressive growth is expected to continue. Suncor expects its funds from operations to continue to grow in 2019 and 2020. The increase in FFO and share buybacks the company has been doing will continue to drive CFPS higher in 2019 and 2020.

On a valuation basis, the enterprise value to EBITDA (EV/EBITDA), which predominantly measures the value of a company, is only 7.1 times on a trailing 2018 basis. This suggest the company is slightly

undervalued. Going forward, that number is expected to decrease to 5.8 times, which would make it very undervalued.

The balance sheet is also very strong with plenty of liquidity available, showing why Suncor has a stable credit rating from the big three agencies. The dividend is also a nice feature yielding 4%. At these levels, the dividend is stable and should continue to grow given that Suncor has raised its dividend for 17 straight years. Even with the increase in dividend and large share-buyback program, Suncor expects a cash flow surplus.

Suncor does, however, face some headwinds in regard to its upstream operations. Due to the large segment of business, it is not completely unexposed to commodity prices. However, it does have a larger margin of safety, solid capital planning, and liquidity available.

Going forward, Suncor looks slightly undervalued, but if management can execute its plans and hit their guidance numbers, the company will be well undervalued and worth an investment.

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2. TSX:SU (Suncor Energy Inc.)

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