Is Suncor Energy (TSX:SU) Canada's Top Energy Stock?

Description

Canadian integrated energy major **Suncor Energy** (TSX:SU)(NYSE:SU) was one of the few local energy companies to profit when Canadian heavy crude tanked in 2018 because of a lack of pipeline exit capacity and record domestic oil inventories. Since then, prices have recovered because the provincial government of Alberta introduced mandatory production cuts to drain local oil inventories.

When the cuts were announced late last year, the price of Canadian heavy crude**,** known as Western Canada Select (WCS), which is the benchmark price for bitumen, more than doubled from its 2018 lows. While this triggered adverse fallout for many oil producers, it had little direct impact on Suncor, which was opposed to the cuts from the get-go.

Solid results

Canada's second-largest oil sands operator reported some solid first-quarter 2019 results, despite oil's latest gyrations. Suncor's net earnings nearly doubled compared to a year earlier to almost $1.5 million, surprisingly, in an operating environment where the average price for West Texas Intermediate (WTI) was US$8 per barrel lower than the same period in 2018. That notable increase in earnings was the result of a solid production increase, where Suncor's oil output rose by 11% year over year.

Despite weaker WTI, the average realized price for WCS was 10% higher compared to the equivalent period in 2018 because of Alberta's production cuts, further bolstering Suncor's earnings because bitumen makes up 86% of its production.

The integrated energy major has some of the lowest operating costs among Canadian oil producers. For the first quarter, Suncor reported cash costs for its oil sands operations of $29.95 per barrel of bitumen produced, which, while being 12% higher year over year, were still some of the lowest in the oil sands industry.

A reduction in the tempo of refining operations coupled with significantly higher WCS prices saw that division's revenue decline by 4% to $5.2 billion.

Nonetheless, net earnings from Suncor's refining business grew by a very notable 28% to $1 billion, despite weaker WTI and higher WCS prices. That can be attributed to cheaper feedstock, which was held in inventory at the start of the quarter, being used coupled with an improved distillate crack spread, which saw the refining margin move by $5.85 to $36.35 per barrel.

Suncor, unlike many of the other oil sands producers, has enough capacity to refine around two-thirds of its bitumen output, meaning that if WCS prices crash again once Alberta's production cuts end, it won't be materially impacted.

In fact, Suncor was one of the few bitumen producers that significantly benefited from sharply lower WCS and the wide price differential to WTI because of its substantial refining operations.

Putting it together for investors

Suncor's profitability will continue to grow. Production will continue expanding at a solid clip with the company focusing on drilling and development work at Hebron, and the West White Rose and Norwegian Oda and Fenja projects will give its oil output a lift. A combination of reduced capital spending compared to a year earlier because of the completion of Fort Hills, the improved outlook for oil, and growing production will give earnings a healthy lift over the remainder of 2019 and into 2020.

Suncor's impressive operations and growing profitability have seen it hike its dividend for the last 16 years straight, qualifying it as a Dividend Aristocrat and seeing it reward investors with a yield of almost 4%. That is an outstanding achievement when the difficult operating environment created by the oil slump is considered, creating another reason to buy Suncor today.

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