Market Crash: Can Suncor (TSX:SU) Survive on $30 Oil?

Description

Suncor Energy Inc (TSX:SU)(NYSE:SU) shares are trading below their 2008 lows thanks to a twin sell-off in equities and oil. In an environment of oil below $30 per barrel, the market has started to doubt the company's prospects.

Given the low share price, Suncor's dividend is yielding almost 12%, the highest it has ever been. I believe the current low share price is an overreaction. Thanks to a strong balance sheet and an integrated model, Suncor has the resources to survive a prolonged bear market in oil.

Strong balance sheet and liquidity

Suncor has one of the most enviable balance sheets in the oil patch. At the end of 2019, Suncor had $6.7 billion in liquidity on hand, with $2 billion of cash and equivalents and additional credit lines of $4.7 billion. Furthermore, the company has no debt maturing in 2020. It has only $2.6 billion of debt to mature in a staggered fashion between 2021 and 2024.

Cash draws from major projects such as Fort Hill and Hebron are also nil, as they have now reached completion. That said, I believe a lot of the market's apprehension is because Suncor's capital budget is based on a break-even $45/bbl for West Texas Intermediate crude. Given that oil is now 33% below this figure, investors are beginning to wonder whether Suncor's dividend is sustainable.

There are three points I want to bring up relating to this issue. One, capital budgets are flexible. Suncor has shown that it can successfully navigate a $30/bbl world. After all, we have visited these levels before, in 2016.

Secondly, Suncor currently has an aggressive share buyback program that, when combined with its dividend, has delivered shareholder returns of $9 per share between 2017 and 2019. If faced with the prospects of a prolonged oil downturn, Suncor can simply suspend its buyback program to keep the dividend.

In fact, it did just that when oil prices crashed in 2016. The company generated just $6 billion of funds from operations in that fiscal year. Given that its sustaining capital expenditures are budgeted at $3.3 billion for 2020, I don't believe a cut is on the table.

Finally, it bears repeating that Suncor is an integrated energy company and is hedged against low oil. With 460 thousand barrels a day of refined products, and 97% refinery utilization rates, Suncor is able to realize global pricing and outperform its downstream peers.

The bottom line

With $30 to $40 per barrel oil setting up to be the new normal, and investors attempting to reconcile fundamentals and a deteriorating commodity backdrop, Canadian oil names have been sold off en masse. Despite the bearish overhang, the sell-off has presented buying opportunities in some of Canada's best energy names. One such company is Suncor, which boasts an excellent balance sheet and a refinery hedge against low oil prices.

With 18 years of solid dividend history, Suncor's value proposition is hard to ignore.

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