This Oil Pick Is the Best House in a Bad Neighbourhood

Description

The Canadian oil patch has been absolutely decimated, as commodity prices remain depressed. Global supply and demand fundamentals are out of whack. As the coronavirus pandemic continues on, the total demand shock effects are becoming harder to estimate by the day. We now have more clarity on global supply curtailment efforts. However, the true impact of this global recession on oil and gas companies globally remains uncertain.

The best house in a bad neighborhood

Within this shroud of mystery and overt pessimism from most market participants, I'm going to discuss **Suncor Energy** (TSX:SU)(NYSE:SU). I see this oil pick as the "best house in a bad neighborhood."

As far as oil sands companies go, Suncor really has the most going for it compared to the company's peers. I'm going to highlight a few key drivers that make Suncor's business more desirable than its counterparts. I recently wrote about Suncor as my top "highest-risk, highest-reward" defensive pick.

Lowest-cost production

The first key advantage Suncor has is superior business economics. In particular, Suncor has the lowest-cost production in the sector. This ability to produce finished product at the lowest possible cost is very important. This is because it lowers the company's sensitivity to oil prices, which remain erratic for the reasons previously highlighted.

Oil sands production typically is a higher-cost process. However, Suncor has spent billions in upgrading its mines with state-of-the-art equipment. This has lowered its average marginal cost, which is a huge advantage. Western Canadian Select (the heavy grade of oil produced from the oil sands) is trading sub-$5 per barrel recently. Therefore, all oil producers are losing money right now. This includes Suncor, but to a lesser degree. Here is the key point: Suncor has bought itself more time to survive with its previous cost-efficiency investments.

Large reserves of oil

The second key advantage Suncor has over its peers is a relatively large reserve of oil. Previous estimates had pegged the company's reserves at around 30-35 years' worth of production. However, if global oil consumption continues to decline, these reserves could potentially last a lot longer.

These reserves will be mined over the next three to four decades. This means the current spot price of oil is meaningless. Rather, the long-term projected average oil price over the next 30-40 years is what investors ought to be spending time projecting forward.

Bottom line

As a long-term investment, Suncor's core business model does look attractive. The key question then becomes, will Suncor survive this vicious near-term shock? And if so, will this shock result in substantial, lasting, long-term effects for the company? That would indeed result in a deal breaker for long-term investors analyzing this company today. It is indeed this balance which makes this pick a "high-risk, high-reward" play.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. canada
2. Editor's Choice
3. energy
4. oil
5. Suncor

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. canada
2. Editor's Choice
3. energy
4. oil
5. Suncor

Date
2025/08/23
Date Created
2020/05/13
Author
chrismacdonald