



3 Reasons to Buy Suncor Energy Inc.

Description

Oil has been in a much stronger position over the past few months with barrels of WTI and Brent trading at US\$65.17 and US\$69.66, respectively. One company that benefits considerably from the increase in oil prices is **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

There are three reasons I would recommend buying Suncor.

Multiple supply chain touch points

Many companies own one part of the oil supply chain. Suncor, however, owns multiple parts. We know that it owns its oil sands operations, which we'll touch on shortly, but it also owns a variety of major refinery operations and more than 1,500 Petro-Canada service stations.

This provides a hedge for Suncor, so it is always generating revenue. For example, when oil prices were low, refining costs were lower, which allowed Suncor to generate greater margins. And because Suncor also sells gasoline, it is able to extract profit from there. In this example, downstream assets provide strong revenue.

The other side is when oil prices are high. The downstream assets might not generate as much, but Suncor is making more money selling barrels of oil, so the company remains secure.

Smart growth and operations

Suncor has made a [series of acquisitions](#) over the past couple of years that has put Suncor into a strong position to dominate the oil market. It bought Canadian Oil Sands for \$6.6 billion. It then spent \$8 billion to expand its exposure to the Syncrude project from 12% to 54%. And finally, it expanded its ownership of the Fort Hills project to 50.8%.

That played out quite nicely for Suncor. In 2015, it generated 582,900 barrels per day. In this most recent quarter, it generated 736,400 barrels per day. And with oil prices increasing, you can expect that earnings are increasing as well.

But another number stands out as well: \$24.20. That's Suncor's cash operating costs per barrel, which is effectively how much it has to spend to get a barrel out of the ground. In 2011, that number was \$39.05.

So, what you have is a company that is pumping more oil at a reduced cost, while oil prices are increasing. That is the trifecta to a growing oil business.

Dividends

The third reason I am a fan of Suncor is simple: the dividend is growing significantly.

Before the end of the most recent quarter, the board approved a 12.5% increase in the dividend to \$0.36 per share. This is on top of an additional \$2 billion in share buybacks, which is always a good sign for investors.

Looking forward, with oil prices high, the company continuing to make smart acquisitions, and the diversified business, I see no reason why the dividend won't be increased even more.

If you are bullish on oil, Suncor is the only stock you want to own. It checks all the boxes, and because of that, I recommend investors buy.

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