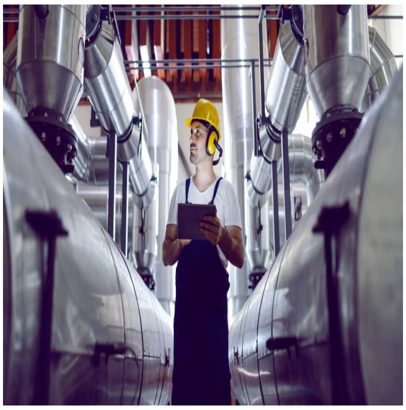

1 Key Headwind Investors in Canada's Oil Patch Need to Consider

Description

Of late, clean energy has taken a new role in the market. Indeed, companies and investors have shifted their outlook for clean energy stocks. And dirtier energy options are increasingly being looked at less fondly by money managers of late.

Accordingly, it can be somewhat surprising to see the recent performance **Suncor Energy** (TSX:SU)(NYSE:SU) has provided. Oil prices are rising, and some investors seem to be enticed to consider these value picks, regardless of the ESG pressures placed on these stocks.

However, Suncor has also been making moves to align itself with the ESG trend that's taking hold. Let's take a look at some of the ways Suncor is looking to reduce emissions, and how this might affect the stock over the medium term.

Pressure to cut carbon emissions is significant

Unfortunately for Suncor, oil sands are notorious for heavy carbon emissions. As one of Canada's key oil sands players, this is certainly something investors are considering right now.

The pressure for oil producers to curb carbon emissions and combat the negative impact of climate change is increasing. This pressure has prompted many companies to divest of their stakes in Canadian oil sands. Companies such as **Conoco Philips, Royal Dutch Shell**, and **Exxon Mobil** have all done so to varying degrees. Similarly, **Chevron** is planning to sell 20% of its stake in an oil sands mines in Canada as well.

Indeed, the landscape is changing and changing fast. Companies like Suncor will likely control a more substantial portion of the concentrated oil sands market over time. Indeed, for investors bullish on the need for heavy oil, this is a good thing.

However, Suncor's problem is that when no one else wants to own these assets, their value is likely to drop. As the market moves toward more carbon-friendly fuel sources, Suncor's core oil sands business could go into secular decline. This is a headwind investors must price in today.

Now, this headwind doesn't mean imminent danger for investors in Suncor. Indeed, the need for heavy oil will exist for some time. However, the rate at which companies like Suncor diversify their business models into other lines of business remains the key focal point of many investors.

Bottom line

Suncor isn't sitting on its hands, waiting for harsher ESG regulations to be handed down by regulators. Rather, the company has its own absolute carbon emissions targets that it has set for 2030. The company plans on reducing its carbon intensity by 30% over the coming decade — a praiseworthy goal.

However, whether this is enough to combat the rising prevalence of renewable power generation remains to be seen. Suncor is making a tonne of money at these higher oil price levels. However, investors may also be concerned about the potential for volatility in commodities prices.

Accordingly, Suncor is a stock which provides a higher-risk, high-reward type of return in this market. Investors bullish on the energy sector ought to give this a look. Those squeamish about the potential ramifications electrification provides may want to look elsewhere.

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