



ESG vs. Suncor Stock: Which One Will Win?

Description

The search for [undervalued stocks](#) is on. And in this regard, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) has certainly been a [top pick](#) of investors of late. After all, the rally in Suncor stock since pandemic lows is quite an incredible thing to witness.

However, of late, concerns have arisen around how high oil prices really can go. After hitting highs near US\$80 per barrel in recent weeks, oil prices have calmed down of late. Accordingly, investors may be unsure as to whether Suncor stock still reflects this undervalued thesis.

Let's dive into what investors are looking at right now.

Could ESG concerns take out Suncor Stock?

Among the reasons energy prices have declined of late is the view that renewable energy will take front and centre stage as the future of energy generation in the decades to come. Indeed, rising environmental, social, and governance (ESG) concerns with existing energy companies have shed new light on energy investing for many institutional and retail investors.

In this regard, Suncor stock could be one that investors may view as risky. As a pure-play energy producer, Suncor's stock price is inherently tied to commodities prices. Should renewable energy significantly reduce demand for traditional fossil fuels, Suncor stock could be on the out with investors.

That said, we're likely to be in a period of transition for some time to get to this point. Indeed, Suncor is a company that's been increasing its renewables exposure of late. As the industry re-positions to take on more renewable energy generation, Suncor does have the potential to reinvent itself.

I think investors need to keep a realistic time frame in mind with respect to this transition. Indeed, given Suncor's size, I believe this company's focus on diversification could bode well for long-term investors. And over the near term, Suncor will be a company that churns out excellent cash flow at these current market prices. It's a win-win scenario for investors.

Bottom line

These higher energy prices have translated into very strong earnings of late for Suncor. The company expects to churn out an annual profit of US\$6.4 billion after paying dividends, in the coming years. Suncor's plan is also to increase its dividend to US\$2 per share by 2025. This implies a forward yield of roughly 8.7%, based on where Suncor's stock is trading at right now.

Indeed, there's a lot of optimism priced into these projections. Additionally, those concerned about ESG-related selloffs with energy stocks have reason to avoid this sector altogether.

However, among the group of energy producers I'd consider right now is Suncor. This company's business model, management team, and overall strategic foresight make this a top-notch energy player to buy right now.

I think the future is going to be one dominated by ESG-friendly companies. I also think Suncor has the means and ability to become a leading player in this regard. However, until renewable energy generation capacity increases to the levels needed, Suncor will be there to provide us with the energy we need. That's a compelling proposition right now for long-term investors.

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Date

2025/08/13

Date Created

2021/07/12

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