How Suncor Energy (TSX:SU) Stock Is Placed ahead of 2022

Description

Canada's largest oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU) has had a blockbuster year in 2021. Thanks to higher oil and gas prices, it saw significant earnings recovery, doubled dividends, and strengthened the balance sheet.

However, SU stock has been a notable underperformer this year despite all these positives. The stock only gained 38% when peer energy stocks rose by more than 70%. Will Suncor continue to lag markets next year as well? Or the current underperformance is an opportunity for discerned investors?

Suncor Energy in 2022

The optimism across the industry has been on the rise recently. Canadian energy companies expect supporting oil and gas prices to continue next year. So, higher free cash flows, higher cash distribution to shareholders, and balance sheet improvement will also likely keep pace in 2022. It will be interesting to see whether the companies allocate higher towards climate-related goals next year.

Suncor Energy outlined a similar plan in a capital program released on December 13. It expects to invest $4.7 billion in 2022, approximately 15% higher than the 2021 expected plan. However, this spending guidance is lower by $300 million than its previous outlook. Suncor expects to produce 750,000 to 790,000 barrels of oil equivalent per day (boe/d), almost 5% higher than 2021.

Dividends and leverage

So far in 2021, Suncor Energy has managed to reverse the dent caused by the pandemic significantly. Its earnings from the downstream segment had been on the rise amid re-openings, and the trend will likely continue next year.

In the last 12 months, Suncor reported $2.4 billion in net income relative to a $4.3 billion loss in 2020. It doubled its dividend in October, which it trimmed last year amid the pandemic. SU stock currentlyyields 5.6%, one of the highest among peers.

Suncor Energy's breakeven price has declined from WTI US$45 a barrel during 2015-2019 to US$35 a barrel in 2021. It expects breakeven at close to $35 per barrel through 2025. Thus, higher crude oil prices could notably improve its free cash flows and margins.

As earlier stated, Suncor continued to improve its balance sheet strength and reduced net debt by $3.1 billion so far in 2021. Its net debt-to-EBITDA ratio was close to 1.7x as of September 30, 2021. The ratio is an important metric to measure leverage and shows how many years a company would take to repay its net debt with its EBITDA.

Suncor's leverage looks manageable and does not look risky considering the rosy outlook for the energy sector next year. However, it is still higher than its closest peers.

Bottom-line

Suncor Energy's vertically integrated operations place it well for the volatile oil and gas price environment. However, given the bullish oil price outlook, this oil sands giant could be an appealing bet with its juicy dividend yield and potential financial growth.

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