



Suncor Energy Stock: Why Is it Rising?

Description

Suncor Energy Inc ([TSX:SU](#))([NYSE:SU](#)) stock has been on the rise lately. Up 17% since the start of the year, it is solidly outperforming the market. In the same year when tech stocks (and the broad market indexes) are delivering negative returns, Suncor is positively soaring.

The question is, *why?*

In 2020, Suncor was in the gutter. It posted four losing quarters in a row, and its stock sank more than 50%. Today, SU is one of the best performing stocks on the TSX. In this article I will explore the factors that led to Suncor's dramatic recovery.

Oil prices rising

The most obvious factor behind Suncor's stock price gains is [rising oil prices](#). WTI crude is close to \$100, while Brent crude passed that milestone days ago. Suncor Energy is a company that makes money by extracting and selling oil. When oil prices rise, its revenue rises, but its costs don't necessarily rise much. SU uses some natural gas in its operations, so its costs rise somewhat when petroleum products get more expensive. However, its revenue from oil sales rises much more. So, on the whole, Suncor profits when oil prices rise.

We can see that fact demonstrated perfectly in Suncor's most recent earnings release. In [the fourth quarter](#), Suncor delivered:

- \$1.29 billion in operating income, up from a \$109 million loss
- \$1.55 billion in net income, up from a \$163 million loss
- \$3.14 billion in funds from operations (FFO), up 157%
- \$1.2 billion in debt, down 65%

Very solid numbers. The debt reduction was particularly impressive, as it showed that Suncor was making steps to improve its balance sheet. A healthier balance sheet can lead to higher earnings in the future, as it reduces interest expense.

Russia vs Ukraine

The big situation to keep an eye on when it comes to Suncor Energy is the war between Russia and Ukraine. Russia is currently under a sweeping set of sanctions, including export bans. Its Nordstream 2 pipeline into Germany is currently suspended. All of this is leading oil futures to soar. Buyers are using futures to lock in reasonable oil prices as they expect prices to soar even more if Russian supply is off the market long term. This is all bullish for energy stocks, of course. But it may be temporary. If the war between Russia and Ukraine is resolved peacefully then the scramble to buy oil will likely cool off. That could lead to lower prices in the future.

So, Suncor Energy stock is undeniably bullish right now. But this isn't the kind of play you can just sit on forever without paying attention to it. If oil prices come back down then SU stock will come down right along side them. This is one reason why I sold my position in Suncor Energy. I bought it a few weeks ago thinking oil prices would rise. Now near \$100, oil is approaching the higher range of prices I thought it would go to. So I sold my SU stock, booking a 9.5% gain.

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