Suncor Energy Stock ZOOMS as Global Oil Supply Collapses

Description

Suncor Energy (TSX:SU)(NYSE:SU) stock is absolutely screaming this year. Up 25% year to date, it is crushing the market. Thanks to the combination of higher oil prices and the economic recovery from COVID-19, Suncor is likely earning more money this quarter than it has in recent memory. The markets are anticipating the strong Q1 earnings and sending the stock higher.

Why Suncor Energy is zooming

Suncor Energy is zooming due to the high oil prices we are currently observing. As you might have noticed, gas is getting extremely expensive. That's thanks to a dramatic rise in crude oil prices that has occurred this year. The war in Ukraine has taken a lot of oil supply off the market. Russia's own supply isn't moving out of the country, and several pipelines in Ukraine have been destroyed. So, there is less supply of oil while demand is either rising or staying constant.

As you might expect, that's a boon to Canadian energy companies. The rising oil prices result in higher profit margins for companies whose operations aren't based in Eastern Europe. Some Western oil companies have taken a hit; for example, **Exxon** and a few other American producers had to abandon their Russian assets due to the sanctions. Suncor, however, was not one of those companies. Its operations are mainly in the Canadian tar sands — it has relatively little foreign presence. So, it has been able to operate normally throughout this entire crisis, collecting higher revenue in the process.

We still haven't seen Suncor's earnings for the current quarter, which ends in about three weeks. However, we do know that Suncor's fourth quarter — which saw only moderately strong oil prices — was pretty strong. In the quarter, Suncor delivered the following:

- $3.14 billion in adjusted funds from operations (FFO), up 157%
- $1.29 billion in operating income, up from a loss
- $1.55 billion in net income, up from a loss
- $3.7 billion in debt reduction

It was a solid quarter. It technically missed analyst estimates, but the year-over-year growth was very strong. The results for the current quarter will likely be far better. The higher the price of oil goes, the higher the prices Suncor can charge to its customers. So, the possibility of $2 billion or more in net income for Q1 is very real.

Will it last?

It's one thing to note that that Suncor has been doing well thanks to higher oil prices but quite another thing to say that it will last. As mentioned previously, the current bullishness in oil is partially being driven by a war in Eastern Europe. Should the war end — as everyone hopes it will — we may see prices go lower. That could result in some weakness in Suncor Energy stock in the future. So, that's a headwind to be on the lookout for.

That being said, OPEC countries are showing no signs of wanting to increase oil sales, so there's reason to think that prices will be at least "decently high" for the remainder of the year. Overall, Suncor is far from the worst long-term hold for 2022.

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