Suncor Energy (TSX:SU) Stock: How High Can it Go?

Description

Suncor Energy (TSX:SU)(NYSE:SU) stock has been ripping this year. Up 15%, it has been soundly outperforming the TSX Composite Index. While a 15% return isn't that high, the broader stock market is down this year. So, Suncor's performance has been comparatively strong. It is beating the TSX by 15% and the S&P 500 by 26%.

It's been an incredible run to watch. But it leads to an inevitable question: How long can this on go for?

Integrated energy companies depend on high oil prices to make money, and oil prices have been showing weakness recently. After a wild bull market earlier this year, prices abruptly crashed, with WTI oil going from $120 all the way down to $95. It was a steep selloff. And it led to a more modest selloff in Suncor stock, which was down 3.3% on the day this article was written.

So, there are some signs that Suncor's 2022 rally may already be slowing down. Then again, it can always pick up. In this article, I will explore Suncor's price moves in 2022 to try to gauge where it will end up in the year ahead.

Oil prices set the ceiling

The big thing you need to know about Suncor Energy stock is that oil prices set the ceiling on its earnings.

Suncor is an integrated energy company. That means that it extracts, refines, and sells oil products. Its main business activity is selling gasoline direct to consumers at Petro-Canada stations. It has a secondary business exporting crude oil to the United States. Both of these businesses make more money when oil prices are high and less when they are low.

Gasoline prices tend to correlate with oil prices, so Suncor's entire business is pretty heavily dependent on the commodity. It takes $45 oil for Suncor to even break even. Prices were below $45 for most of 2020, so Suncor lost money that year. This year, oil prices are very high, so Suncor is probably making very good money right now. We haven't seen Q1 earnings yet, so we can't confirm that, but it's very likely.

There's more to the story

While Suncor's business depends heavily on oil prices, it's not exactly a direct play on the commodity itself. Among other things, Suncor's business is impacted by

- Amounts of oil extracted;
- Availability of pipeline and crude-by-rail capacity;
- Politics (e.g., climate change concerns); and
- Debt levels.

All of these have major impacts on Suncor's business. Output, for example, can hold back earnings when prices are high, or boost it when prices are low (assuming they're at least above break even). Debt is a big part of the picture because interest expenses take a bite out of profit. In the most recent quarter, Suncor revealed that it had retired $3.7 billion worth of debt and achieved $2 billion in net debt reduction over 12 months — incredible progress. If Suncor can keep it up, then it will have a solid foundation for profits that grow well into the future.

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