



Suncor Stock Soars: Should You Buy Now?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) just saw its share price soar after news broke that an activist investor is pushing for major changes to the board.

Suncor news

Elliott Investment Management, founded by billionaire investor Paul Singer, revealed it has a 3.4% stake in Suncor. The investment firm is asking Suncor to add five new directors to the board and wants to see changes made at the top level of the business while calling for a review of Suncor's operations.

Suncor's share price has trailed its oil sands peers in the past two years. The company faced a number of operational setbacks and safety issues. Suncor also upset investors when it slashed the dividend by 55% in 2020 to protect the balance sheet during the pandemic downturn in the oil market.

Suncor's peers, however, kept payouts steady in the early part of the pandemic and then raised them significantly in 2021 and again this year. Suncor used its cash windfall in 2021 to reduce debt and repurchase shares. The share buybacks continue in 2022.

Suncor increased the dividend by 100% in late 2021, but that only brought the payout back to the 2019 level.

Outlook

The move by Elliott Investment Management could push Suncor's board to deliver a large dividend increase when the company reports Q1 2022 earnings. At the same time, Suncor might start to look at monetizing some non-core assets while the oil market is in a bull cycle.

WTI oil trades for more than US\$100 per barrel and the price is expected to remain elevated for some time as rising global demand bumps up against limited capacity for significant supply increases. The recent sanctions against Russia could remain in place for years, providing a floor under any meaningful

downturn in oil prices.

Suncor's downstream refining and retail operations should deliver strong returns in the second half of 2022, as demand rises for jet fuel and gasoline. Airlines are ramping up capacity to meet soaring travel demand, and commuters are expected to hit the highways again in the coming months, as businesses call people back to the office.

Should you buy Suncor stock now?

Suncor traded for \$44 per share before the pandemic when WTI oil was about US\$60. The stock is up about 10% at the time of writing on the Elliott Management news, but that only puts the share price at about \$46.50. Suncor's oil sands peers have seen their share prices soar 50-100% above their pre-pandemic levels, so a move to \$65 or \$70 wouldn't be a surprise.

Investors who buy the stock at the current price can pick up a 3.6% yield and wait for the next dividend increase, which could be substantial.

Suncor will eventually sort out its operational challenges, and the market might not fully appreciate how much cash flow the company generates at current oil prices. Suncor's downstream operations used to be viewed as important hedges against volatility in the price of the commodity. With fuel demand expected to hit or exceed 2019 levels by the end of this year, the market should start to put more value on Suncor's integrated structure.

Volatility should be expected, but Suncor still looks [undervalued](#). This could be the start of an extended rally in the stock price.

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