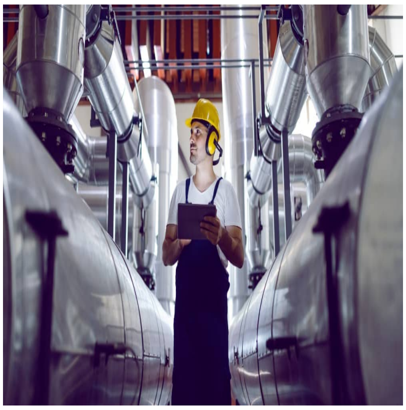

Could Elliott's Attack Really Create Value for Suncor Energy Investors?

Description

While Canadian energy bigwigs are making respective record highs this year, the country's biggest oil sands player, **Suncor Energy** (TSX:SU)(NYSE:SU), is nowhere close. This has led activist investor Elliott Management to target Suncor. Since last year, TSX energy stocks have more than doubled, and SU stock has remarkably underperformed.

Suncor's underperformance invites top activist investor

US$51.5 billion hedge fund Elliott Management disclosed its 3.4% economic interest in Suncor Energy on April 28. The news pushed SU stock 12% higher for the day — an impressive move for an otherwise laggard.

Activist investors find target companies with solid growth potential but are plagued by operational or management-related issues. They buy a small but influential stake in the company and propose strategic changes to the existing board. If the board fails to implement those changes, activist investors could escalate into proxy fights to take control of the company's board.

Elliott Management has targeted **AT&T**, **Twitter**, and **NRG Energy** in the past. As a result, the share prices of the activist-invested companies have shown superior performance in the short to medium term. But their performance in the long term has been mixed.

In the recent case, Elliott has criticized Suncor for its "slow-moving, overly bureaucratic corporate culture." As a result, it has proposed appointing five new independent directors to the board and also a sale of Petro-Canada's 1,800 retail outlets.

Elliott expects the proposed changes to send SU's share price to $60 — a handsome 50% upside from Wednesday's close.

Elliott's proposed strategic changes

How Suncor Energy management responds to these proposed changes remains to be seen. The Canadian energy sector looks extremely well placed in the current scenario with steadily increasing crude oil demand and squeezed supply. Notably, Suncor's underperformance is concerning amid the rallying oil and gas prices.

As proposed by Elliott, Suncor's exit from its retail business could unlock significant value for shareholders. A maximum value could be garnered by selling it to a strategic acquirer, mainly amid the re-openings gaining pace. In addition, the sale proceeds could be used to repay debt or to increase shareholder dividends.

Suncor trimmed its dividend by 55% in 2020 amid the pandemic. As oil and gas prices eventually recovered, it normalized dividends in Q4 last year. So, all in all, Suncor has not increased dividends from its pre-pandemic levels, when peers have shown handsome dividend growth. Apart from the financials, Suncor has struggled on the operational front with multiple employee fatalities, lower production, and high costs.

Rallying energy prices could aid Elliott and Suncor

Suncor is planning to release its Q1 2022 earnings on May 3. Superior free cash flow growth and balance sheet improvements have been the trend so far in the sector. Apart from the quarterly performance, it remains to be seen whether Elliott's Midas touch will work for Suncor shareholders.

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Date
2025/07/21
Date Created
2022/04/29
Author
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