



Suncor (TSX:SU): Can Activists Unlock Value?

Description

Energy has been a central theme and one of the best-performing sectors amid inflationary pressures that have weighed significantly on the capital markets. Most oil and gas stocks are in the midst of an epic rally. However, one of the biggest producers is lagging behind.

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock has had a great run. The [stock is up 47%](#) this year. However, some of its peers have doubled in value and tripled dividends. Suncor could deliver even better performance for long-term investors, which is what Paul Singer's Elliott Management is trying to push Suncor's board to do.

Here's a closer look at the activist strategy and what it means for long-term investors.

Suncor's performance

Suncor stock is up by more than 47%, outperforming TSX, which is up by about 3% year to date. Sentiments in the market have improved owing to rising oil prices, which have found support above the \$100-a-barrel level. Geopolitical tensions in Europe are working to oil companies' advantage, as supply constraints are expected to keep prices at elevated levels.

Suncor's free cash flows have more than tripled over the past year, directly correlated to an increase in crude prices. The company is on course to generate as much as \$10 billion in cash this year owing to the high oil prices. The company delivered impressive Q4 earnings characterized by an EPS of \$0.71, up from a loss of \$0.07 the prior year.

However, Elliot Management believes the board can do even more.

Activist requests

Elliott Management has made six recommendations to the company. They want Suncor to hire more independent directors to the board, make changes to the management, give back more cash flow,

improve overall operations for safety, and sell some non-core assets.

They believe that the stock could surge as much as 50% if these strategic moves are implemented. So far, the company's leadership team seems receptive to the ideas. Suncor is reportedly in talks to sell its Petro Canada's assets to **Alimentation Couche-Tard**. That deal could unlock \$10 billion in value.

Similar moves could push the stock higher over time.

Shareholder returns

Amid the impressive financial results, Suncor has also affirmed its commitment to return maximum value to shareholders. It has announced plans to repurchase its common stock, targeting 5.5% of the 2021 market cap. It also rewards investors with an impressive 4% dividend yield, which should excite passive investors.

While the stock has surged this year, it is still trading at a discount with a price-to-earnings multiple of seven. Consequently, Suncor is an exciting pullback play for exposure in the booming energy sector.

Bottom line

Suncor is a good bet if oil prices stay elevated. It's an excellent bet if Elliott's activism is successful. Keep an eye on this developing story.

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