Suncor Energy (TSX:SU): What to Expect From its Q1 Earnings

Description

Canada's largest oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU) plans to release its first-quarter earnings on May 9. Energy producers so far have posted solid performance due to soaring oil and gas prices. It remains to be seen if Suncor Energy will follow peers. Apart from its quarterly numbers, how management responds to activist investor Elliott Management's suggested strategic changes will also be interesting to see.

default watermark

Suncor Energy Q1 earnings

SU stock has rallied almost 50% this year, while TSX energy stocks have gained 55%.

According to analyst estimates, Suncor Energy will report earnings of $1.55 per share for the quarter that ended on March 31, 2022. That indicates an increase of more than 200% year over year. Besides earnings, free cash flow will be an exciting number to watch for in Suncor Energy's upcoming earnings. Solid free cash flow growth will likely accelerate its debt repayments and dividend.

Suncor Energy reported free cash flows of $7.2 billion last year, thanks to higher oil and gas prices. In the earlier year, the company posted negative free cash flows amid lower energy prices.

Suncor Energy's breakeven comes at around US$35-a-barrel WTI, which includes operating costs, capital expenditure, and current dividends. So, considering the differential between current crude oil prices close to US$100, Suncor Energy should see significant windfall gains, at least in the first half of 2022.

At a $68 billion market cap, Suncor Energy is the second-largest energy producer in Canada. It has integrated operations and aims to produce 750,000 boepd this year.

Improving balance sheet strength and higher dividends

Driven by solid free cash flow growth, Suncor Energy aggressively repaid its debt last year. As a result, its net debt fell from $19.8 billion in 2020 to $16.1 billion in December 2021. Investors can expect further deleveraging in the first quarter of 2022.

This has mainly been the theme in the Canadian energy sector since the pandemic. As oil and gas prices rallied since mid-2020, energy producers saw encouraging earnings and free cash flow growth.

Companies used this excess cash to improve their balance sheet strength and to increase shareholder dividends instead of increasing production. As a result, TSX energy stocks have returned more than 200% since the pandemic, and companies' financials have been in better shape.

However, SU stock notably lagged, where it returned 75% in the last 12 months against peer bigwigs returning 150%. So, the activist investor Elliott Management, who owns a 3.4% economic interest in Suncor Energy, has suggested several changes that would increase shareholder value in the long term. Among some changes, it has proposed appointing five new independent directors to the Suncor board and a sale of Petro-Canada's 1,800 retail outlets.

Bottom line

Suncor Energy's underperformance is indeed concerning, mainly amid the rallying oil and gas prices. It will likely report superior numbers in the upcoming release, but how it deploys the excess cash will drive the stock going forward. A willingness to follow activist investor's ideas and a favourable management commentary on dividend hikes should move the stock higher.

default watermark

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vinitkularni20

Category

1. Energy Stocks
2. Investing

Date
2025/06/29
Date Created
2022/05/04
Author
vinitkularni20

default watermark

default watermark