



## Should Suncor Stock Be Part of Your Portfolio in 2022?

### Description

Canadian oil giant **Suncor** ([TSX:SU](#))([NYSE:SU](#)) has been among the top performers on the TSX in the last year. Since May 2021, Suncor stock has surged close to 75%, compared to the 8% returns of the TSX. Despite its market-thumping gains, the company also [offers investors](#) a dividend yield of 4%, making it attractive to income investors as well.

Let's see if Suncor can continue to derive outsized gains for investors in 2022 and beyond.

### Suncor is focused on lowering debt

Suncor operates oil sands, which means the company has to dig up oil-rich soil and process it to extract oil. While oil sand assets require [a significant amount](#) of capital expenditure to build, they have low operational costs as well as long production lives. In addition to oil sands, Suncor also has a refining operation that diversifies its revenue base.

Similar to most other energy companies, Suncor is well positioned to benefit from higher oil prices, which should improve earnings and cash flows significantly this year. Analysts tracking the stock expect revenue to rise by 38% year over year to \$54 billion in 2022, while adjusted earnings might more than double to \$6.6 per share.

Suncor is valued at seven times forward earnings and continues to trade at a reasonable multiple. Its operational improvements and supportive market conditions have increased free cash flow at a stellar pace, driving shareholder returns higher and accelerating the pace of debt repayments.

In Q1, Suncor repurchased shares worth \$830 million and reduced debt by \$730 million. Its board of directors increased quarterly dividends by 12% to \$0.47 per share, which is the largest dividend hike in the company's history.

Suncor expects to use around 50% of its free funds flow to repurchase shares and the rest to lower its debt until the company's net debt reaches \$12 billion. Once it achieves its net debt target, Suncor will allocate 75% of free cash flow towards buybacks and the rest towards debt reduction, until net debt

touches \$9 billion. Suncor claims it expects to achieve its net debt target of \$12 billion in the second half of 2022.

## How did Suncor perform in Q1?

In Q1 of 2022, Suncor's adjusted funds from operations stood at \$2.86 per share, which was 30% higher than its previous quarterly record achieved in Q4 of 2021. Its disciplined execution of capital allocation allowed the company to return \$1.43 billion via dividends and buybacks, which indicates annualized returns of 11% given Suncor's average stock price in the quarter.

In Q1, Suncor's adjusted funds from operations from its oil sands business stood at \$3.4 billion with an average realization of \$115 per barrel. Due to Suncor's marketing and logistics advantage, its bitumen realizations stood at \$103 per barrel, which is above the sector benchmark.

Analysts remain optimistic about Suncor stock and have a 12-month average price target of \$50, which is 8% above its current trading price. After accounting for its [dividend yield](#), annual returns might be over 12% in the next year.

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2. Investing

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