



TFSA Wealth: Is Suncor Stock Still a Buy?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is finally catching a tailwind after trailing its peers in the oil rally over the past two years. Investors who missed the recent surge are wondering if Suncor stock is still [undervalued](#).

Suncor earnings

Suncor generated a record \$4.1 billion in funds from operations in the first three months of 2022, nearly double the amount of the same period in 2021. Adjusted operating earnings rose to \$2.76 billion compared to \$746 million in Q1 last year. Net earnings came in at \$2.95 billion, up from \$821 million.

The big increase gives investors an idea of how much extra cash flow Suncor generates in current conditions. WTI oil remains above US\$100 per barrel and is expected to stay elevated for some time. As a result, the Q2 numbers should be even better.

Suncor is best known for its oil sands production assets, but the company also owns large refineries and roughly 1,500 Petro-Canada retail locations. These downstream assets historically provided a good hedge against drops in the price of oil, but they also took a beating during the lockdowns of the pandemic.

Now that airlines are ramping up capacity and commuters are hitting the highways again, the refining and retail businesses are performing well. The group generated \$1.6 billion in adjusted funds from operations in the first quarter of this year compared to \$1.17 billion in Q1 2021.

Dividends

Suncor raised its dividend by 100% late last year and recently announced another 12% hike to bring the quarterly payout to \$0.47 per share. This completes the reversal of the 55% distribution cut the company made in the early days of the pandemic.

Suncor's decision to reduce the dividend in 2020 upset investors and put the stock in the doghouse. The oil giant's Canadian peers refrained from cutting their payouts and have seen their share prices soar to new all-time highs in some cases.

Share buybacks

Suncor also announced an increase to its share-buyback program. The company now intends to repurchase up to 10% of its outstanding stock over a 12-month period compared to the previous goal of 5%. From February 8 to May 6, 2022, Suncor repurchased \$1.04 billion in stock.

Activist investor

Suncor's share price jumped in late April after an activist investor, Elliott Investment Management, revealed a 3.4% stake in Suncor and called for a shakeup of senior management and the board. The market seems to think the company will be forced to put more measures in place to enhance shareholder value.

Should you buy Suncor stock now?

Suncor still appears cheap given the outlook for oil prices through the end of the year and the recovery in the refining and retail operations. The stock currently trades at \$48.50 per share. Suncor was \$44 per share in early 2020 before the arrival of the pandemic. At that point, WTI oil was only about US\$60 per barrel. Today, it is above US\$110.

Investors who buy now can pick up a dividend that provides a 3.9% yield and wait for the rest of the market to realize the stock remains undervalued.

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