



## Suncor Energy: How High Could This Oil Stock Go?

### Description

**Suncor** ([TSX:SU](#))([NYSE:SU](#)) stock is starting to attract attention again after strong Q1 results and news that an activist investor wants to shake up the board. Is it too late to buy, or are more gains on the way?

### Suncor Q1 2022 earnings

Suncor generated adjusted funds from operations of \$4.09 billion in Q1 2022 compared to \$2.11 billion in the same period last year. Adjusted operating earnings came in at \$2.76 billion compared to \$746 million.

A sharp increase in the price of oil helped offset lower production volumes. Total upstream production in the quarter was 766,100 barrels of oil equivalent per day (boe/d) compared to 785,900 in the same period last year. Bad weather in the first part of the quarter caused part of the lower year-over-year output.

The downstream business continues to rebound from the pandemic hit. Suncor has large refineries and more than 1,500 Petro-Canada retail locations. Airlines are ramping up capacity and driving higher demand for jet fuel. At the same time, people are heading back to offices in increasing numbers. These trends are expected to continue in the coming months.

Refinery throughput increase to 436,500 barrels per day in the first quarter from 428,400 in Q1 2021. Refined product sales rose to 551,900 barrels per day compared to 548,100 in the first three months of last year.

Maintenance and turnaround work is planned in Q2 in both the production and downstream operations. This will have an impact on output, but soaring prices for oil and fuel should more than offset potential drops in oil production and refinery output.

## Dividends

Suncor slashed the dividend by 55% in 2020 to preserve cash flow during the pandemic. That move upset investors who had relied on Suncor's stable payout growth through previous downturns.

Suncor raised the dividend by 100% late last year to bring the distribution back to the 2019 level, and the board just announced another 12% increase to fully recover and exceed the previous cuts. Investors are starting to return to the stock, as more dividend growth is anticipated.

The current quarterly distribution of \$0.47 per share provides a yield of 3.6% at the time of writing.

Recent pressure from an activist investor will keep management focused on maximizing returns for investors. Selling the retail operations to unlock value is one suggestion being put forward. Management has indicated that is not on the table, but higher dividends should be on the way as net debt is paid down with the excess cash flow.

## Share buybacks

Suncor is also returning cash to shareholders through an aggressive share-buyback plan that will see the company repurchase up to 10% of the outstanding common stock over a 12-month timeframe.

## Is Suncor stock still cheap?

Suncor trades near \$52.25 at the time of writing. The stock was \$44 before the pandemic. WTI oil currently trades at US\$115 per barrel compared to US\$60 in early 2020. The oil sands production business is generating significantly higher margins at current oil prices, and the rebound in fuel demand should drive even better results in the refining and retail business. Diesel fuel demand is already back above 2019 levels. Gasoline should catch up by the end of this year, and jet fuel demand isn't far behind.

Some of Suncor's peers have doubled their pre-pandemic share prices. All things being equal, Suncor stock still appears undervalued. Assuming WTI oil holds above US\$100 for the coming months, it wouldn't be a surprise to see Suncor stock take a run at \$80 per share by the end of this year.

Volatility should be expected, but investors who think oil prices are destined to remain near current levels over the medium term might want to consider adding Suncor to their portfolios.

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