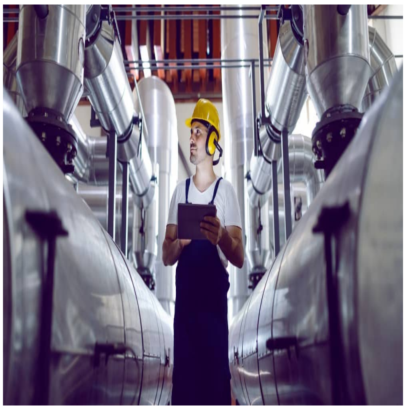

Why Suncor Energy (TSX:SU) Stock Has Declined 20% in June

Description

Tech stocks, crypto, and even gold — everything has been on a tear this year. However, one pocket that has really played well and stood out among the broader market is energy stocks. TSX energy stocks have soared 60% this year, while Canadian stocks at large have dropped 10%!

However, in the last few weeks, this divergence has notably narrowed, as oil and gas names tumbled. Canada's leading oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU) declined almost 20% in the last two weeks, which is in line with its peer TSX energy stocks. Rising recession fears have been a key factor that brought down energy commodity prices in June, which was mirrored in oil and gas stocks.

Recession to weigh on oil stocks?

A potential recession would dent the global energy demand and would weigh on crude oil prices. However, according to energy economists, supply would still fall short compared to demand, even in case of a recession. So, energy stocks might soon bottom out and could climb back up again.

Apart from the supporting picture on the macro front, oil-producing companies have been in terrific shape since the pandemic. Suncor Energy, for example, earned windfall gains amid the steep oil price rally. As a result, its free cash flows and profit margins notably improved, which was well reflected in its stock price.

Importantly, Suncor Energy used this excess cash to repay debt, which brought down its leverage. So, the company's balance sheet notably strengthened with lower debt and a strong liquidity position. It had total debt of $21.7 billion at the end of 2020, while it has come down to $18 billion at the end of Q1 2022. This debt balance is still high when considered in absolute terms. However, given the oil price strength and its EBITDA growth, Suncor's debt will be fully paid in a little over a year.

This is the miracle the current oil price rally has shown. Energy producers were some of the most leveraged, poor balance sheet companies in the pre-pandemic period. However, strict capital discipline has made a world of difference this time. Like Suncor, almost all energy companies have aggressively repaid the debt with their excess free cash flows and allocated a still large portion to shareholder dividends.

More dividend hikes coming

Suncor Energy increased its dividend by 12% in Q1 2022, after a previous hike of 55% in Q4 2021. It currently yields a handsome 4.2%, higher than peer energy bigwigs. Interestingly, despite a couple of hikes, Suncor is still in a strong position to increase shareholder payouts further.

SU stock has rallied 50% in the last 12 months and 37% this year. Oil prices will likely restart their upward climb this week after a brief hiatus of profit booking.

Eric Nuttall of Ninepoint Partners is still highly bullish on energy and said that the focus should not be entirely on demand. Rather, he thinks supply constraints will continue to underpin oil prices, *BNN Bloomberg* reported.

Bottom line

So, in a nutshell, a demand-supply imbalance is here to stay, even in an economic downturn, which will likely push crude oil prices further higher. Undervalued stocks, a favourable macro situation, and strengthened balance sheets should support TSX energy stocks. Suncor Energy, too, looks well placed to ride higher after a recent correction.

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