



## Is Suncor Stock a Buy Right Now?

### Description

Energy companies have delivered outsized gains in 2022, as [rising oil prices](#) have enhanced cash flows and bottom lines. However, now with interest rates going up to combat inflation, the good times might start to cool off. In such a situation, what does **Suncor** ([TSX:SU](#))([NYSE:SU](#)), Canada's largest integrated oil player, do? Is the stock a buy right now?

### Suncor beat estimates in Q1

Suncor reported its quarterly results last month and handily beat consensus estimates. It reported adjusted earnings per share of \$1.92 compared to estimates of \$1.55 per share. Revenue came in at \$13.49 billion compared to estimates of \$11.62 billion.

Increased cash flows enabled Suncor to reduce net debt by \$728 million. It returned over \$1.4 billion to shareholders via share repurchases (\$827 million) and dividend payments (\$601 million). The company announced a quarterly dividend of \$0.47 per share — an increase of 12% compared to Q4.

Suncor's quarterly dividend is the highest-ever payout in the company's history, indicating a forward yield of 4.1%.

Suncor ended Q1 with net debt at \$15.4 billion. It aims to reduce net debt to between \$12 billion and \$15 billion by 2025 and claimed it's on track to "achieve the lower end of its 2025 targeted net debt range during the second half of 2022." This is great news for shareholders.

Once net debt hits \$12 billion, the company is likely to allocate 75% of excess funds to share buybacks and 25% for further debt repayments. Once the net debt hits \$9 billion, Suncor has said the company expects to allocate excess funds fully towards shareholder returns.

### Suncor stock is dependent on oil prices

Suncor Energy has ridden the surge in the oil price to gain 38.6% in 2022. But due to the recent fall in

oil prices, Suncor has lost 13% in the last month.

Suncor's fortunes are directly tied to oil prices. While oil prices fell from \$122 on June 8 to \$107 last week, Suncor's stock prices have declined from \$53 to \$46 in this period.

However, it seems the market has priced in falling oil prices. From the looks of it, the stock might be oversold. It trades at just six times free cash flow. If Suncor can continue to replicate its Q1 earnings for the rest of 2022, its robust cash flows will drive the multiple even lower.

## What's next for Suncor stock and investors?

From a very long-term perspective, Suncor is changing along with the times. The energy giant knows that it can't rely on oil forever to power its growth.

On June 23, Suncor released its 2022 reports on sustainability and climate change. The company has taken stock of the changing world view on oil and says it is making a massive push on growing its low greenhouse gas fuels, electricity and hydrogen business while optimizing its hydrocarbon business. Suncor has said it aims to be net zero on carbon emissions by 2050.

Analysts tracking Suncor have a 12-month average price target of \$56, which indicates upside potential of almost 20%. After accounting for its tasty dividend yield, total returns might be closer to 25% in the next year, making it an enticing stock to buy right now.

### CATEGORY

1. Dividend Stocks
2. Investing

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