



## Is Suncor (TSX:SU) Stock a Buy on This News?

### Description

**Suncor** ([TSX:SU](#))([NYSE:SU](#)) just announced it has come to an agreement with an activist shareholders who pressed for changes at the integrated oil giant. Investors who follow Suncor stock now want to know if the news could spark the next rally.

### Suncor news

Ongoing safety concerns after a recent death at a production site appear to be the tipping point in the battle with activist investors Elliott Investment Management. Suncor's CEO just exited the company, and the board is undergoing changes.

Suncor is now adding new independent members to the board and is giving Elliott Investment Management the right to nominate an additional director in the event the company misses new performance goals.

Elliott Investment Management is also getting its way on another demand that Suncor had initially ignored. The company has agreed to undertake a strategic review of its retail operations that include a network of roughly 1,500 Petro-Canada locations. This means Suncor will test the waters on a possible sale of the division as a means of unlocking value.

Suncor historically found favour with investors who liked the integrated business structure. The retail group, along with the refineries, provided a good revenue hedge when oil prices tumbled in most situations. The pandemic, however, was a different beast. Oil prices plunged due to a crash in fuel demand, rather than as a result of higher supply.

One analyst report suggests the retail business could be worth more than \$11 billion. Suncor's current market capitalization is \$58 billion, so a deal in that range would free up some meaningful capital that could go back to shareholders as a special dividend or be used to bulk up the production assets.

## Oil outlook

WTI oil traded above US\$120 per barrel on two surges this year. A pullback has brought it down to \$101, but up from a recent dip below US\$95 after Saudi Arabia said it isn't planning to raise output, despite pressure from the American president.

Analysts widely believe the OPEC leader has limited room to increase supply and that the entire global oil sector finds itself in the same situation. A dramatic decrease in investment over the past two years has reduced the ability of major producers to quickly ramp up output. Companies that have that ability to boost production are not making major investment commitments due to concerns about meeting emissions goals.

A recession could slow down demand growth in the next couple of years, but it won't stop the recovery in fuel consumption. Airlines will continue to increase capacity once they get through the challenges of this summer season and commuters will hit the roads by the millions starting this fall.

Volatility should be expected in the oil market, but WTI oil could hover around the US\$100 mark for some time. That's a very profitable price for Suncor and its peers.

## Is Suncor stock a buy?

Suncor trades near \$40 per share at the time of writing. That's down from the 2022 high above \$53, so there is decent upside potential on the next surge, even without value creation from a sale or spinoff of the retail business.

If you have some cash to put to work, Suncor stock deserves to be on your radar. The shares look [undervalued](#) and now offer a solid 4.7% yield.

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**Date**

2025/07/04

**Date Created**

2022/07/19

**Author**

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