



Suncor (TSX:SU) Stock: Is it Time to Sell?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) trades for \$40.90 per share at writing. It is down by 22.9% from its latest all-time high on June 9, 2022. Stock market investors who missed out on the [energy industry's](#) rally earlier this year might be wondering whether the pullback in share prices could be an ideal entry point to establish a position in the Canadian energy stock.

Let's take a closer look at Suncor stock to help you determine whether the energy giant could be a good value addition to your self-directed investment portfolio.

An overview of the company

Suncor is a \$58.7 billion market capitalization integrated energy company headquartered in Calgary. The Canadian energy giant specializes in producing synthetic crude oil from its oil sands operations. Its operations include oil sands development, production, and upgrading. The diversified energy play has petroleum refining operations in Canada and the US, and production and upgrading facilities for its oil sands operations.

Suncor also boasts downstream business verticals, selling petroleum products under PetroCanada in wholesale and retail markets. The company has been developing various petroleum resources while focusing on its transition to a low-emissions future by investing in renewable fuels, hydrogen, and power.

Suncor's integrated structure has been a great asset that has historically offered it an effective hedge during declines in oil prices. Lower crude oil prices reduce the company's input costs, improving its profit margins through refinery operations. Lower prices for the finished product typically mean higher sales through its retail operations.

However, the pandemic created a challenge Suncor has never faced before. The oil price dip accompanied diminished demand for fuel, impacting all segments of the integrated energy company's business. The company underperformed many of its peers through the 2020 decline, and a major reason being cited for its poor performance has been the safety and operational issues it has faced.

Suncor also lost a lot of investor faith when it slashed its shareholder dividends in 2020 to bolster its financial position when dealing with the pandemic's economic impact.

Change may be on the way

Elliot Investment Management, an activist investor, has been demanding that the company conduct a strategic review of its downstream assets and enact changes at the company. The mounting pressure from the activist investor seems to have paid off because Suncor Energy's CEO recently handed in his resignation, and the company announced its intent to add new board members.

Suncor has already been working to improve operational safety conditions at its facilities. Another major change that may take place soon would be the sale of its retail operations. Suncor owns and operates around 1,500 retail locations under the banner of PetroCanada. Selling those sites could bring in an estimated \$10 billion of liquidity for the battered energy giant, potentially driving share prices up.

Foolish takeaway

WTI Crude oil prices have dropped from over US\$120 per barrel in mid-June to under US\$98 per barrel. Despite the drastic decline, oil prices at current levels are still profitable for energy businesses. Even if Suncor decides not to sell its PetroCanada locations, the company looks well-positioned to drive substantial cash flows and revenue through the ongoing fuel demand recovery.

The company's board raised its shareholder dividends by 100% towards the end of 2021 and introduced a 12% dividend hike after its Q1 quarterly results for fiscal 2022. It has more than made up for slashing its shareholder dividends in 2020, bringing its payouts to a new all-time high of \$0.47 per share. The company is also buying back up to 10% of its outstanding shares.

Suncor stock boasts a juicy 4.60% dividend yield at current levels. It could be a good addition to your investment portfolio if you are bullish on the energy demand recovery.

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