



## Suncor Energy (TSX:SU) Could Power Your Portfolio to New Highs

### Description

The energy sector has seen quite a bit of pressure recently, with oil slipping below US\$90 per barrel before bouncing back modestly. Understandably, oil's slip was triggered by an increase in recession fears. Though a recession may still be in the cards for 2023, I think it's becoming apparent that it will be more structured and less chaotic than those suffered in the past. Further, there's a chance it could be light and even healthy for the long-term health of the economy, and set the stage for the next bull market.

It didn't take long for investors to go from fretting over a recession to focusing on rate cuts that could follow the current rate-hike cycle. At the end of the day, markets are forward-looking (by 12-18 months); investors may finally be poised to look beyond the period of economic slowness. Sure, the recent bout of bullishness may prove unwarranted if things end up worse than they are. However, given that markets tend to overshoot (both to the downside and upside), I'd argue that the risk/reward is still very attractive to long-term investors willing to put up with another year of volatility.

### Suncor Energy: Trading at a discount

As oil finds its footing, I'm a big fan of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). The high-quality integrated energy firm trades at 1.4 times price-to-book (P/B) and 6.0 times price-to-earnings (P/E), which are well [below](#) industry averages of 2.4 and 11.2, respectively.

Understandably, Suncor has always traded at a relative discount despite its size. The firm's workplace safety and operational efficiency track record have not been best in class. Still, there's much room for improvement, and I think the recent management shuffle will bring forth positive, long-lasting change in the company. Such change could pave the way for substantial multiples expansion.

In its latest quarter, Suncor clocked in \$2.71 in EPS (earnings per share), well above the \$2.56 consensus estimate. It was a decent beat but certainly not a jaw-dropper. Looking ahead, I'd look for Suncor to sell its retail business and use the profits to invest heavily in efforts to enhance operational efficiencies.

## Petro-Canada sale in the cards?

Suncor's retail business (comprised of around 1,500 Petro-Canada convenience-store-equipped fuel stations) has an expected price tag of approximately \$10 billion. In prior pieces, I highlighted that convenience store kingpin Alimentation Couche-Tard had the firepower to make a deal happen.

However, given its disciplined M&A strategy, it wouldn't make a deal unless it knew it'd create value in the form of synergies. Though \$10 billion seems like a fair price for Suncor's retail business, there's a chance it could get a bit less. Suncor is seeking to sell. And with Couche-Tard willing to walk away, Suncor may have to be willing to take a bit less than fair value.

## The Foolish bottom line for investors

If Suncor can make a sale while enjoying the windfall of high oil prices, there's really no telling how high the stock could fly as it looks to catch up to the relative outperformers in the space.

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