



## Suncor Energy: Is This Stock Now Oversold?

### Description

**Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is going through a transition in the middle of an epic rally in the oil market. Investors who watched the share price underperform over the past two years are wondering if SU stock is now [undervalued](#) and good to buy for a [TFSA or RRSP](#) portfolio.

### Suncor overview

Suncor is a large player in the Canadian energy sector with a current [market capitalization](#) of \$56 billion.

The former darling of the oil patch now finds itself out of favour with investors. Suncor's pains started when the company cut the dividend by 55% in the spring of 2020. At the time, the move seemed reasonable considering the plunge in the price of oil at the start of the pandemic and the fact that fuel demand had completely dried up. Suncor is best known for its oil sands production operations, but it also has significant downstream assets, including four large refineries and a retail business that is home to roughly 1,500 Petro-Canada gas stations.

In prior downturns, the refining and retail assets provided a nice hedge against falling oil prices. Cheaper crude oil inputs could lead to higher margins on the finished fuel products that the refineries produce. In fact, the integrated business model is a big reason Suncor's share price historically held up better than that of the pure-play producers during the downturns. The pandemic, however, impacted all three parts of Suncor's operations. Oil prices fell due to a destruction in demand for fuel, rather than due to a supply glut.

Suncor's producer peers maintained their dividends in 2020 and increased the payouts considerably in 2021. Suncor waited until near the end of 2021 to finally start increasing the distribution. The 100% increase was then followed by another 12% hike when Suncor reported second-quarter (Q2) 2022 results. This brought the quarterly dividend to a new high at \$0.47 per share, but investors are still not impressed.

Early this year, the underperformance led to activist-investor demands for change at the executive and

board levels. Suncor initially pushed back, but finally agreed to make sweeping changes. The chief executive officer resigned, and new faces have joined Suncor's board. The management team is now unloading non-core assets and evaluating the potential monetization of the retail operations.

## Opportunity

A sale of the network of gas stations could unlock significant value. In fact, analysts speculate the group could fetch as much as \$10 billion. If that turns out to be true, Suncor investors could see the stock price surge and potentially receive a large special distribution.

Even if Suncor decides to keep the retail business, the stock price should still appreciate. Suncor is generating significant profits at current oil prices and is using excess cash to pay down debt and buy back up to 10% of the outstanding stock. These initiatives should help drive up the share price over time.

Suncor generated Q2 2022 net earnings of \$4 billion compared to \$868 million in the second quarter of last year. In the first half of 2022 net earnings came in at \$6.95 billion compared to \$1.69 billion in the first six months of 2021.

## Should you buy Suncor stock now?

Suncor trades near \$40.50 per share at the time of writing compared to \$53 in June. The price of West Texas Intermediate (WTI) oil is down from US\$120 to US\$87, but this is still a very profitable level, and Suncor's share price likely doesn't reflect the profit potential. To put things into perspective, Suncor traded for \$44 per share when WTI was around US\$60 before the pandemic.

Volatility in the oil market is expected to continue, but Suncor should be a good stock to buy at this level if you are of the opinion that oil prices will remain above US\$75 for the next few years. The dividend provides a 4.6% yield at the current share price, and investors should see another generous dividend increase in the next 12 months.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

### PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred

6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

## PP NOTIFY USER

1. aswalker
2. kduncombe

## Category

1. Energy Stocks
2. Investing

## Date

2025/07/19

## Date Created

2022/09/05

## Author

aswalker

default watermark

default watermark