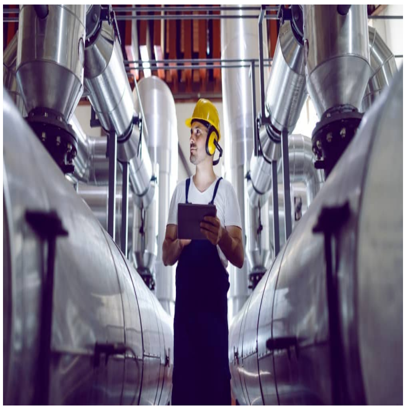

Suncor Energy (TSX:SU) Is Down by Almost 25%: Should You Buy Right Now?

Description

Suncor Energy (TSX:SU)(NYSE:SU) is a $55 billion market capitalization giant among Canadian energy stocks. The Calgary-based integrated energy company specializes in the production of synthetic crude oil from its oil sands operations.

It also boasts significant offshore oil and gas operations, alongside petroleum refining operations in Canada and the United States. Suncor also operates PetroCanada, a retail and wholesale distribution location network that directly serves end consumers.

Suncor seems like an excellent business to invest in if you are bullish on the performance of the energy sector. The company has several business verticals that mitigate the risks of commodity prices. And yet, it has been struggling of late.

The company is going through a significant transition right now, and its share price has underperformed in the last two years due to pandemic-related factors.

Many investors might wonder whether it is an undervalued stock worth buying or something to keep your distance from. Let's look at what's happening with Suncor stock to get a better idea.

Trouble in paradise

Suncor was once a Canadian Dividend Aristocrat with a lengthy dividend-growth streak. However, the pandemic forced the company's management to slash its shareholder dividends to preserve capital and maintain liquidity.

The move immediately made the company fall out of favour with investors, even though the decision to reduce its dividends by 55% seemed logical in light of the situation the world was in.

Unfortunately, it did little to help, as fuel demand completely diminished due to the pandemic. Suncor can weather harsh environments for crude oil prices thanks to its downstream operations. However, its diversified revenue streams could not deliver it from the devastation for the energy sector amid peak lockdowns.

Previous downturns have seen its retail and refining operations offset its losses from falling oil prices. Cheaper crude oil input would typically lead to higher profit margins for its downstream operations. The pandemic impacted all its operations, causing it to slide down and stay down for a long time.

The company's underperformance on the stock market led to demands from investors for a change in its management. After initial pushback, Suncor conceded and started making substantial changes across the board.

The company's chief executive officer resigned, and several new people joined its board. Its new management has taken on the task of offloading non-core assets to free up cash and improve its financial position. It is also considering selling its gas station networks.

How things could look in the near future

Analysts anticipate the company can generate as much as $10 billion from a potential sale of its downstream assets. If the new management does decide to do that, it could see Suncor stock's share prices rise. Suncor has the potential to see an uptick on the stock market even if it holds onto its retail operations.

The current oil prices have been a boost to its financial performance, allowing Suncor to generate higher profit margins. The company has been busy paying down its debt through the excess cash flow, and it is on track to buy back 10% of its outstanding stock. The company's initiatives could prove fruitful for investors.

The second quarter of fiscal 2022 saw Suncor generate $4 billion in net earnings, a substantial improvement from $868 million in the same period last year. The company's net earnings in the first half were $6.95 billion compared to $1.69 billion in the same period last year.

Foolish takeaway

As of this writing, Suncor stock trades for $40.27 per share and boasts a juicy 4.67% dividend yield. It is down by almost 25% from its 52-week high. The company is profitable, despite falling oil prices. While the volatility in the energy industry is expected to continue, it could be a good opportunity to add Suncor stock to your portfolio at a heavy discount.

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