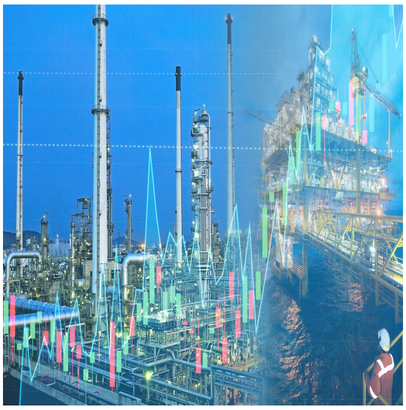

Why Suncor Energy Stock Fell 10% in September

Description

Oil and gas producer stocks have been on a worrisome downturn since June. Even though supply woes have grappled the global energy markets, the recession fears and subsequent demand decline fears have weighed on oil prices in the last few months. Canada's largest oil sands player **Suncor Energy** (TSX:SU)(NYSE:SU) has also witnessed similar weakness. Suncor Energy Stock has lost 28% since June and 10% in September.

Why are energy stocks falling?

Oil producer stocks have a high correlation with energy commodity prices. So, the weakness in energy stocks has not been surprising, as crude oil fell by another 7% in September. TSX Energy stocks at large fell by 11%, while the **TSX Composite Index** fell by 6% last month.

Besides oil prices, share repurchases and balance sheet improvements have been other major drivers for TSX energy stocks. As Canadian energy stocks have been trading near their multi-month lows, share buybacks could gain steam, supporting their stock prices in the short term.

Till early August, Suncor Energy bought back 88.2 million shares this year worth $3.9 billion. Share repurchases ultimately increase the company's per-share earnings and suggest management's view that the shares are undervalued.

Although SU stock has dropped significantly from its record highs, the company has strong fundamentals. Solid earnings visibility, a deleveraged balance sheet, and juicy dividends make it an appealing name among TSX energy stocks.

Massive earnings growth

So far in 2022, Suncor Energy has reported free cash flows of $4.9 billion, against $2.2 billion in the same period last year. This incremental cash mainly went for debt repayments and shareholder returns. Its net debt declined from $18.7 billion in Q2 2021 to $15.7 billion in Q2 2022. As Suncor repays more debt in the second half of this year, a higher portion of its free cash will likely be used for share repurchases and dividends.

Suncor Energy is expected to pay a dividend of $1.88 per share, implying a nice annual yield of 5%. However, many of its peers have doubled their dividends this year, while the Suncor Energy stock dividend was only raised by 12% in 2022. Note that it's not because Suncor has weaker financials. However, it has the potential and will likely increase shareholder payouts in the next few quarters.

Bottom line

This has been a blockbuster year for TSX energy stocks, despite the recent downtrend. Energy producers saw record financial growth in Q2 2022, as oil prices jumped beyond US$130 per barrel. Suncor Energy has returned 50% in the last 12 months and 170% since the pandemic.

There are many strong reasons to be bullish on crude oil than being bearish. The cartel of oil-producing nations is considering cutting output by one million barrels of oil per month. This will enhance the demand-supply skew, bolstering oil prices. Moreover, the Russian energy supply seems uncertain to Europe and the US, which will further support higher prices.

As a result, the recent weakness in the Suncor Energy stock price seems overdone and the stock looks ripe to soar higher. The fundamental strength, mainly on the balance sheet front, is what differentiates Canadian energy stocks in this energy bull cycle.

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