Suncor Is up 30% in 2022: Is the Energy Stock Still a Buy?

Description

The energy sector has crushed broader market returns in 2022 on the back of rising oil prices. The reopening of economies and the ongoing war between Ukraine and Russia resulted in higher demand as well as supply chain constraints driving profit margins of companies that are part of the energy sector higher this year.

Shares of the Canadian energy giant **Suncor** (TSX:SU) are up 30% year to date and have been among the top performers on the TSX in 2022. Let's see if Suncor stock can continue to outpace the stock market in the next 12 months.

What does Suncor Energy do?

An integrated energy company, Suncor Energy has successfully developed one of the world's largest petroleum resource basins at Canada's Athabasca oil sands and was the first entity to extract crude oil from northern Alberta's oil sands.

It has since gained traction in the energy sector and is among Canada's largest integrated energy companies with a portfolio of high-quality assets, solid growth prospects, and an enviable operating profile.

Suncor was listed on the TSX three decades back and has returned over 5,000% to shareholders, compared to the 373% gains of the S&P 500 in this period. Since 1992, Suncor's daily oil sands production has surged by 600%, allowing it to deliver market-beating returns to shareholders consistently.

Despite its stellar performance, Suncor currently offers shareholders a tasty dividend yield of 5.1%, making it extremely attractive to the income-seeking investor.

How has Suncor energy performed in the third quarter of 2022?

Suncor generated $4.5 billion in adjusted funds flow from operations (FFO) in the September quarter, including a downstream loss of $585 million. However, Suncor's integration between upstream and downstream allowed the company to mitigate wider heavy crude differentials and deliver strong profit margins.

Suncor's upstream volumes stood at 724,000 in the third quarter (Q3), and these numbers are expected to increase in the final quarter of 2022, as maintenance activities will be completed at two of its locations. Suncor enjoyed a 100% utilization rate in the downstream segment as well as its third-best crude refining throughput ever in Q3.

The energy giant distributed $1.7 billion to shareholders via dividends and share buybacks in Q3. It also completed a bond repurchase tender, enabling Suncor to buy back debt below face value and lower the structural breakeven cost by $1 per barrel. The restructuring ensures Suncor is on track with its capital-allocation framework and lowers net debt over time.

Depending on oil prices, Suncor might increase capital allocation to share repurchases to 75% by the end of Q1 of 2023.

What's next for Suncor stock and investors?

Suncor aims to optimize its asset portfolio and focus on core integrated businesses. The company recently announced the sale of its wind assets for $730 million and closed the sale of its Norway-based exploration and production assets.

Suncor further confirmed it would sell its U.K.-based exploration and production assets in the near term. A portion of the proceeds from asset sales will be used to increase Suncor's operated ownership in the Fort Hills asset by 21%.

The performance of Suncor stock is closely tied to oil prices. If energy prices remain high, Suncor's improving cost base will allow it to generate significant cash flows and keep increasing dividend payouts in the next year. But a recessionary environment will result in lower demand for oil, dragging SU stock's price lower.

Analysts remain bullish on Suncor stock and expect it to deliver more than 30% in dividend-adjusted returns to shareholders.

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