Is Suncor Energy Stock a Buy After its Disappointing Run in 2022?

Description

Energy stocks have been on a consistent growth streak for the last few years and have outperformed broader markets. Notably, Canada's largest oil sands player **Suncor Energy** (TSX:SU) has consistently lagged its peers. In 2022, SU stock jumped 36%, while TSX energy stocks soared 50%. Even if its run marks a decent outperformance to broader markets, Suncor's consistent slack against its peers must be worrying for investors.

Why SU stock continues to underperform

Thanks to high oil prices, almost all energy-producing companies have witnessed a huge earnings boost since the pandemic. Interestingly, energy producers had excess cash, even after allocating for capital expenditure and debt repayments. As a result, that incremental cash made its way to shareholder returns.

Notably, Suncor Energy lagged on the financial growth as well as on the dividend growth front. In the last 12 months, Suncor Energy reported free cash flows of $9.4 billion — an increase of 30% year over year. It rewarded shareholders with an 80% dividend increase in 2022 compared to 2021. However, even that dividend growth falls short against some Canadian energy bigwigs that flourished shareholders with special dividends.

Apart from relatively weaker performance, Suncor Energy has seen operational issues for long. Since 2014, the company has had at least 12 worker deaths at its oil sands facilities, which is significantly higher than peers combined.

Recently, Suncor Energy temporarily shut down its Colorado refinery due to extreme weather conditions. The outage might have a negative impact on its refinery throughput volumes and, thus, on its financials.

What's next for SU stock?

Moreover, the widening spread between Western Canadian Select (WCS) and West Texas Intermediate (WTI) crude oil also weighed on Suncor Energy stock last year. Suncor produces oil that's sold at the Canadian benchmark, which is approximately $15-$20 a barrel lower than WTI. Pipeline constraints in Canada and U.S. SPR (Strategic Petroleum Reserves) releases majorly drove the gap between the two oil benchmarks last year. The spread might narrow down this year as some additional pipelines come online in Canada and in the absence of the U.S. SPR.

Suncor Energy is Canada's largest oil sands producer and produced 0.7 million barrels of oil per day in 2022. Like peers, it has seen massive deleveraging last year, notably strengthening its balance sheet. Its net debt declined from $20 billion in 2022 to $14.5 billion at the end of the third quarter of 2022. As the company will save on interest expenses amid declining debt, it will likely see improved profitability this year.

Activist investor Elliott Management disclosed its stake in Suncor Energy in April last year. Elliott suggested selling Suncor's non-core assets to unlock shareholder value. However, Suncor recently announced its decision to retain its retail gas station business Petro-Canada after its review with the activist investor.

Conclusion

Suncor Energy stock currently yields 5%, which is in line with TSX energy bigwigs. It is trading seven times its earnings and does not look expensive. However, its higher exposure to WCS and operational issues might continue to weigh on its stock. Peers like **Canadian Natural Resources** or **Cenovus Energy** offer much better risk-reward propositions going into 2023.

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