



## How High Could Suncor Stock Go in 2023?

### Description

**Suncor** ([TSX:SU](#)) had a turbulent 2022 but still delivered solid gains. Investors with a bullish view on oil prices are wondering if SU stock remains [undervalued](#) and is poised to move even higher in 2023.

### Suncor overview

Pressure from an activist investor, safety issues, and an underperforming share price likely contributed to the departure of Suncor's chief executive officer in 2022.

A comprehensive review of the company's assets and strategy followed the leadership change, and that process is now complete. Suncor sold off its renewable energy assets last year and continues to monetize other non-core holdings. The retail division, however, will not be sold, as Suncor has decided to maintain its integrated model. Analysts had speculated that the retail business, which includes roughly 1,500 Petro-Canada locations, could fetch around \$10 billion.

Suncor has production, refining, and retail operations. The structure historically enabled the company to ride out volatility in oil prices better than the pure-play producers. When oil prices fell, the downstream divisions often benefitted and Suncor's stock used to hold up well as a result. During the pandemic, however, all three groups took a hit. Oil prices fell due to a drop in global fuel demand, not as a result of over production. Lockdowns kept commuters at home and airplanes grounded. This hammered demand for gasoline and jet fuel. Refiners and fuel retailers suffered alongside the producers.

### Dividends

The company-wide challenges led to Suncor's 55% dividend cut in 2020. It was the only major oil sands producer to slash the payout. This upset long-time shareholders and the move is one reason the stock has underperformed its peers through the rebound, even though Suncor has since raised the dividend to a new all-time high.

At the time of writing, the stock trades for close to \$41 and provides a 5% dividend yield.

## Opportunity

Suncor stock rose nearly 36% last year, but the share price remains below where it was just before the pandemic. The company's peers are up by as much as 100% over the same timeframe.

At the current oil price near US\$80, Suncor stock looks undervalued. Management has done a good job of using excess cash to reduce debt and buy back a big chunk of stock. This should set the company up for more flexibility on dividend increases or special bonus payouts in 2023 and beyond.

Fuel demand continues to rebound. Airlines are ordering new planes and ramping up capacity to meet surging travel demand. At the same time, companies are increasingly calling workers back to the office. Hybrid schedules will be the new normal, but this could actually result in higher fuel demand, as more people decide to drive to work rather than take public transportation. Soaring fuel demand bodes well for Suncor's refining and retail operations.

On the production side, oil bulls expect market imbalances to push West Texas Intermediate oil back above US\$100 in the next 12 months, even as the world enters an anticipated economic slowdown. [Oil producers](#) have limited scope or desire to boost output, as they focus on maximizing free cash flow.

## How high could Suncor stock go?

Near-term volatility should be expected and more downside could be on the way, but it wouldn't be a surprise to see Suncor take a run at the 2022 high around \$53 at some point in 2023 if oil prices move back toward US\$90.

Investors with a bullish view on oil might want to consider adding Suncor to their portfolios near the current level and look to boost the position on further weakness. The dividend pays a nice yield while you wait for the rebound.

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