



Could Suncor Energy Stock Be a Big Winner in 2023?

Description

While many TSX energy stocks are trading at all-time highs, **Suncor Energy** ([TSX:SU](#)) stock is still in its customary range. It gained 36% last year against peers' surge of 45%. Oil sands giant Suncor has been underperforming its peers for a long time now.

Even when oil prices went to record highs last year, SU stock was amongst the laggards. With an activist investor onboard and in an undervalued stock market, it remains to be seen if 2023 will be any different for Suncor.

What's next for Suncor Energy stock?

Suncor Energy reported free cash flows of \$9.4 billion in the last reported 12 months. That was a handsome increase of 30% year over year. Almost all energy producers saw solid financial growth last year as oil and gas prices zoomed higher. While higher oil prices contributed to higher earnings, energy company capital discipline produced remarkable value creation.

Oil and gas producers have showcased stellar capital management, focusing on deleveraging and shareholder returns. Suncor Energy had \$19.9 billion in net debt at the end of 2020, which has now come down to \$14.6 billion at the end of Q3 2022. Even if [oil prices](#) have come down recently, debt repayments will likely continue, further improving its balance sheet. Lower debt brings down debt servicing costs for the company, which ultimately improves its income.

Improving balance sheet and dividends

It was the debt burden that made energy investors anxious and weighed on returns before the pandemic. However, things have changed for the good. Balance sheets in the oil and gas space have remarkably improved in the last few quarters. And that's the main reason behind investors' affection for the sector.

Last year, Suncor Energy paid a \$1.88 per share dividend, which was 80% higher than in 2021. SU

stock currently yields 4.6%, in line with its Canadian energy peers.

Apart from dividends, Suncor Energy also took a share repurchase route to distribute excess cash to shareholders. Through February and October 2022, Suncor Energy bought back 97.6 million of its shares, worth \$4.4 billion. Many Canadian energy companies are buying back their shares amid windfall cash flows. Compared to special dividends, buybacks provide more flexibility to management.

Suncor Energy in 2023

For 2023, Suncor Energy aims to invest \$5.6 billion in capital projects, indicating an approximately 12% increase over 2022. However, most of this incremental capex will likely go towards higher costs due to increased inflation. The production is expected to increase only marginally by about 2–3% year over year. In comparison, peers are also allocating higher capital due to inflation but targeting a production increase of 5–7%.

Moreover, it will likely keep buying back its shares amid windfall cash flows, like its peers. SU stock is currently trading at seven times its earnings and looks relatively [fairly valued](#). While Suncor Energy's financials look decent, operational issues like lower production and worker deaths might continue to dent investor sentiment. Many Canadian energy bigwigs offer a better risk-reward proposition.

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Date

2025/08/16

Date Created

2023/01/17

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