



## Suncor Energy Stock: Can This Top 2022 Gainer Keep Climbing the Stock Charts?

### Description

**Suncor Energy** ([TSX:SU](#)) stock was one of the best [TSX](#) performers of 2022, surging over 60% in the first half and 35% throughout the year. The reason for this surge was rising oil prices which peaked at US\$125/barrel, as western countries imposed sanctions on one of the largest oil exporters, Russia.

The oil situation still remains a bit dicey, with the United States refilling its Strategic Petroleum Reserve (SPR), and Russia stopping all oil exports to Europe. Meanwhile, inflation and rising interest rate are slowing oil demand, putting downward pressure on oil prices. The question is, can Suncor continue to climb the stock charts this year?

### Why do oil prices impact Suncor stock?

Industry experts expect the oil price to hover between \$80 and \$110 in 2023, as the recession slows oil demand. Oil is a commodity that is abundant in some countries. Hence, its prices are not affected by a single country's demand and supply. All oil companies sell oil at the market rate. The one with the lowest cost gets the maximum profit. Saudi Arabia and Russia have this advantage, as their production cost is in single digits.

Canadian oil companies have a higher cost of production, but they have the geographic advantage of being the neighbour of one of the largest consumers of oil: the United States.

Suncor is an integrated energy company involved in offshore oil and gas production, petroleum refining, processing, and retail and wholesale distribution (Petro-Canada). The company has also ventured into the electric vehicle (EV) charging station network, as it transitions to low-emission energy. It earns 25% of its cash from offshore, 30% from processing and logistics, and 45% from refining. This vast difference is because it transforms crude oil into a refined product of higher value.

### Behind Suncor's 2022 gains

While Suncor can't control oil prices, it can control production costs. It has been investing in optimizing its operations to reduce cost per barrel so that it can remain profitable, even when the oil price falls to its average price of around US\$60. Its 2020/2021 average production cost was \$41/barrel for synthetic crude oil. Hence, Suncor made windfall gains in 2022 when the average oil price was around US\$93, which earned it a cash flow of \$8/share after dividends and capital expenditure.

The [2016 oil crisis](#) from the U.S. shale oil boom made oil producers financially disciplined. They used surplus profits to repay debt and buy back shares, thereby reducing their interest and dividend costs. Last year, Suncor repurchased 7.5% of its outstanding shares and allocated about \$6.2 billion toward net debt reduction.

While improved leverage enhances its profit margins, it does not support stock price appreciation beyond a limit. Oil is a cyclical industry, and improved operating efficiency means regular dividend payments, even in a downturn. While some Canadian [oil stocks](#) have been irregular in dividend payments, Suncor has been paying regular dividends since 1992 and growing them since 2007. In over 30 years, the only time Suncor cut dividends were in 2020. But it was quick to grow dividends in 2021 and bring them on par with the amount before the cut.

## Can Suncor stock continue to climb stocks charts in 2023?

The year 2023 could see oil price hover between \$80 and \$110, bringing higher cash flows throughout the year. That could mean a \$2.08 dividend per share and another 8-10% growth in dividends toward the end of the year.

Suncor's stock price is directly correlated to the oil price. An oil price of \$80-\$90 translates to Suncor stock price of \$40-\$48. That is the highest I see Suncor stock go in 2023. Although some tailwinds could push the stock price above \$50, that is unsustainable. So, if you get a chance to sell Suncor stock at \$49 or above, book profit, as a \$50 price is unlikely to come until another decade or the next recession, whichever is earlier.

## Investing tip

You can use the proceeds from the sale of Suncor stocks to buy undervalued growth stocks like **BlackBerry** and **goeasy**. It is time to buy the dip and sell the rally.

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1. kduncombe
2. pujatayal

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#### **Date**

2025/07/19

#### **Date Created**

2023/01/23

#### **Author**

pujatayal

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