Suncor Beat Estimates: Is SU Stock a Buy Now?

Description

Much on the expected lines, Canadian oil and gas producers have started reporting blockbuster fourth-quarter (Q4) numbers this season. Among the bigwigs, it was the oil sands giant **Suncor Energy** (TSX:SU) this week. It comfortably beat earnings estimates for Q4 and reported a 76% year-over-year jump in profits.

SU stock has returned 25% in the last 12 months, which is in line with TSX energy stocks. However, in the long term, SU stock has notably underperformed its peers.

Suncor Energy Q4 2022 earnings

Thanks to higher upstream production and higher refinery utilization, Suncor Energy reported stronger financial growth in the recently reported quarter. It produced 763,000 barrels of oil equivalent per day in the last quarter, marking a 3% increase compared to Q4 2021.

Even if oil prices have come down lately from their last year highs, they are still higher than in the past. Thus, energy producers are seeing handsome financial growth for the last few quarters.

In fact, broader markets are seeing a decline in corporate earnings growth and margins since last year, mainly due to record-high inflation. However, oil and gas production companies are resilient in such environments due to their pricing power. They can effectively forward their higher cost burden onto their customers without much denting their bottom lines.

Balance sheet and 2023 outlook

Apart from financial growth, Suncor Energy continued its efforts on deleveraging to improve its balance sheet. In Q4 2022, it repaid $3.6 billion of debt and closed the quarter with net debt of $13.6 billion.

Canadian energy companies, including Suncor, have seen a solid improvement in their leverage levels and capitalization of late. Energy companies were some of the most leveraged companies prepandemic, which made investors wary.

However, this has changed since the pandemic. The leverage has come down significantly in the last few quarters, which has made them investors' favourites. Lower debt will lead to lower debt-servicing costs, ultimately improving the company's profitability.

Suncor Energy expects strong free cash flow growth in 2023 as well. Moreover, it aims to direct 75% of its free cash flow toward shareholder returns this year once it reaches a net debt target of $12 billion. So, from Q2 2023, investors can probably expect stronger activity in share buybacks and dividends.

SU stock currently offers a dividend yield of 4.5%, which is in line with its peers. It remains to be seen if it will take the special dividend route or focuses more on share repurchases this year.

Valuation

SU stock is currently trading seven times its earnings and looks attractively valued. On the cash flow front, it is trading at 3.5 times its 2022 cash flows, which is in line with the industry average.

SU stock will likely create considerable value given its financial growth, stable dividend profile, and undervalued stock.

Oil prices have been weak recently due to demand worries amid a potential economic downturn, which was mimicked by TSX energy stocks. However, the downside looks limited due to their fundamental strength and crude oil supply woes.

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