Suncor Stock: How High Could it Go in 2023?

Description

We know that the price of oil can be very volatile — and it often is. In fact, the last couple of years are a true example of the type of volatility that the oil price can exhibit. We have seen this countless times. Within this reality, **Suncor Energy** (TSX:SU) stock is very well positioned.

Oil has fallen sharply since its highs in 2022. But long-term fundamentals are still supportive. What does all of this mean for Suncor stock in 2023?

Sheltered from the volatility

The most interesting aspect of Suncor's business is its diversification. It is the reason that Suncor stock has been an investor favourite for exposure to the energy sector. In the spring of 2022, oil blew past $100 and closed in on $120. Today, it's trading at approximately $76. This fall was sharp and quick.

Yet Suncor stock was sheltered from this fall to a significant degree. While the price of oil fell almost 40%, Suncor stock fell just over 15%. This protection and stability are the whole reason for the company's integrated business — one that's exposed to the upstream as well as downstream business.

The upstream segment is the one that explores for and produces oil and gas. So, when oil prices are high, this segment benefits tremendously. The downstream segment is the one that refines the oil produced in the upstream segment into refined products such as gasoline. This segment thrives when the price of unrefined crude oil is far lower than the price of the refined product such as gasoline. When this "crack spread" is wide, Suncor's refining business does well.

Suncor Energy stock is reporting record results

In 2022, Suncor posted record results. This was driven by strong oil prices as well as strong crack spreads. In fact, Suncor generated adjusted funds flow of more than $18 billion, 77% higher than in 2021. This has enabled Suncor to reduce its debt-load significantly. In 2022, Suncor paid off $3.2 billion of debt. The company also returned $7.7 billion of cash to shareholders in the form of dividends and share buybacks. This represented a very generous 13% cash yield that I believe investors should be willing to pay a premium for.

As this point, Suncor is in a really strong position. With its debt balance well under control, and its operations generating strong cash flows, Suncor stock is looking good. Even though the price of oil has fallen from its 2022, Suncor should still be able to thrive in 2023. But how high can it go?

Big upside exists as Suncor proves itself and investors gain more confidence

Well, I believe that Suncor stock can easily approach $60 in 2023. This would be driven by a few things.

Firstly, Suncor's stock price is trading at multiples that are well below its historical multiples. For example, it's trading at a price-to-earnings multiple of a mere 6.9 times and a price-to-cash flow multiple of a mere 3.3 times. For a company as large, profitable and diversified, this makes no sense. I mean, Suncor's cash flow, minus capital expenditures, and dividend are at break even at an oil price in the mid-$40 range. Oil is currently at almost $80.

Secondly, Suncor is taking real steps to reduce costs and to improve its safety record. For example, the company is implementing a 20% reduction in its contractor workforce. This will reduce costs, obviously, but it will also improve safety as the result will be more organized and efficient operations. Lastly, because Suncor will hit its target debt level by the end of the first quarter, more cash will be directed toward shareholders. So, we can expect share repurchases to drive up the stock price in 2023.

In closing, Suncor is starting this year as an underdog — undervalued and unloved. There may be good reasons for this, but I think that investors will be pleasantly surprised, as the year unfolds, and the power of Suncor's business model is on full display.

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