TFSA Investors: Is Suncor Energy (TSX:SU) Stock Too Cheap to Ignore?

Description

Falling oil prices, pipeline bottlenecks, and global market fears have combined to send the Canadian energy sector into another downward spiral after a relatively positive start to 2019.

As stock prices in the industry continue to fall, contrarian investors are starting to kick the tires on some names that might offer a shot at attractive gains on a rebound.

Let's take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) to see if it should be on your buy list right now.

Earnings

Suncor reported record Q2 2019 results. The company generated $3 billion in funds from operations compared to $2.86 billion in the same period last year.

Operating earnings came in at $1.25 billion, or $0.80 per share, representing a 10% increase over Q2 2018.

Production growth contributed a big chunk of the gains. Suncor hit record oil sands production in the quarter, despite the Alberta government's curtailments. Fort Hills, which went into commercial operation last year, averaged 89,300 barrels per day compared to 70,900 in Q2 2018.

The refining and marketing operations, including the four large refineries and roughly 1,500 Petro Canada retail locations, also had a solid quarter. Operating earnings from the segments were $677 million compared to $671 million in Q2 2018.

Overall, things appear to be rolling along quite smoothly during a turbulent time for the broader industry.

Dividends and share buybacks

Suncor raised its quarterly dividend by nearly 17% for 2019. The stock isn't often cited as a dividend play, but the board manages to give investors a raise every year when times are tough and does a good job of cranking it up when margins expand.

Suncor also buys back shares when it feels the stock is undervalued. In Q2 alone, Suncor repurchased $552 million worth of stock.

Risks

Pipeline bottlenecks continue to be an issue for Canadian oil sands producers. Eventually, Trans Mountain and Keystone XL will likely be completed, but the waiting game continues for the industry and the lack of market access is keeping development projects on the shelf.

Suncor isn’t currently impacted as heavily as some of its peers due to favourable access to existing pipelines. The integrated nature of its business units provides additional relief.

Regarding oil prices, recent weakness in the market is largely attributed to fears of a global recession. Additional downside could be on the way in the near term, as China and the United States continue to work through their trade differences.

Should you buy?

Suncor has the ability to generate solid results in difficult times, and the company turns into a cash machine when prices recover. Given the solid Q2 results, the stock currently appears oversold. Suncor is trading at $37 per share compared to more than $50 at this time last year.

Investors who buy today can lock in a 4.5% yield and simply wait for conditions in the market to improve. If you have some cash sitting on the sidelines, Suncor should be an attractive pick right now.

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