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RRSP Investors: If You Hold This 1 Stock, You’re Set for Life!

Description

In Canada, investing in an energy stock is generally a safe decision. One assurance is the federal government’s staunch support of the oil and gas industry, since it contributes billions of dollars to Canada’s GDP.

With an abundance of energy companies listed on the **TSX**, investors may be wondering which company they should buy shares of. Based on my analysis of **Suncor** (TSX:SU)(NYSE:SU), I believe that its share price is undervalued and would recommend RRSP investors look into buying shares of the company.

Suncor operates in Western Canada, Eastern Canada, the United States, and the North Sea. It is an integrated energy company with a market capitalization of $61 billion.

An interpretation of the numbers

For the six months ending June 30, 2019, Suncor reported net income of $4.2 billion, which is up from $1.8 billion in 2018. About $1 billion of Suncor’s net income is attributed to an income tax rebate of $1 billion due to Alberta’s change in corporate tax rate from 12% to 8%. Excluding this amount, net income is $3.2 billion, which is a positive indication for investors.

Its balance sheet indicates a growth in assets of $4 billion year over year coupled with debt repayments of $1 billion on short-term debt and $1 billion in long-term debt. This is a good sign for investors, as it shows that senior management is fiscally responsible.

The company reported negative cash flow of $114 million in 2019, which is an improvement over the $(743) million in fiscal 2018. Given the company’s ending cash balance of $2 billion, investors should not be concerned with Suncor’s ability to meet future obligations.

But wait, there’s more

Diving into Suncor's financial statements indicates a couple of gems.

Firstly, the company renewed its normal course issuer bid on May 1, 2019, which gives the company ability to purchase and cancel up to 50,252,231 of its common shares between May 6, 2019 and May 5, 2020.

In the second quarter of 2019, the company repurchased 13 million common shares for a total repurchase cost of $552 million. When companies repurchase their own shares this usually indicates that senior management believes the share price is undervalued.

Secondly, the province of Alberta recently changed its corporate tax rate from 12% to 8%, which Suncor expects will result in a deferred income tax recovery of $1.116 billion. As of the interim financials, the company has recognized $997 million in deferred income tax recovery.

Investors will be able to benefit in the short term from the deferred income tax recovery, which will offset tax obligations. In the long term, investors will be able to benefit from a lower income tax rate, which reduces the company's tax obligations.

Foolish takeaway

Investors with a TFSA or RRSP should seriously consider buying shares of Suncor.

Its financial statements for the six months ending June 30, 2019, indicate a strong growth in net income, a strategy to pay down debt, as well as cash reserves of $2 billion, which enables to company to push through the ebbs and flows of the economy.

With the repurchase of 13 million shares in second quarter 2019, senior management is sending a strong message that it believes its share price is undervalued. And the reduction in the corporate tax rate will result in less taxes, which is always a good thing.

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Date
2025/08/16
Date Created
2019/10/29
Author
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