



Buy Alert: Suncor Energy (TSX:SU) Stock Just Popped 80%

Description

Canada-based energy heavyweight **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) has gained momentum since it bottomed out in March 2020. Suncor stock is up 80% from its 52-week low and is well poised to move higher when oil prices rebound.

Suncor stock is currently trading at \$25.17, which is still 44% below its 52-week high. This integrated oil company can take advantage of rising oil prices [by drilling more](#). It also has the flexibility to hedge against a weaker price environment by leveraging its downstream operations.

Suncor Energy is one of two stocks trading on the **TSX** owned by Warren Buffett's **Berkshire Hathaway**. The Oracle of Omaha owns 14.95 million in Suncor stock worth US\$277.45 million, indicating a 1% share in the company.

Suncor reduced capital expenditure and dividends

The oil industry could be likened to a train-wreck given recent events. The oil war between Saudi Arabia and Russia resulted in oversupply. Several countries also announced lockdowns that drove oil demand lower in the last three months. This disruption in the oil and energy sector has been unprecedented and exacerbated the sell-off.

Suncor stock fell close to 70% within a month and the company had to cut dividends by 55%. It also reduced capital expenditure forecast 33% or \$1.9 billion in 2020. Suncor stock now has a forward yield of 3.34% with a quarterly dividend payout of \$0.2 per share. It also expects to reduce operating costs by 10%, or \$1 billion.

All of these decisions will improve the company's short-term liquidity and help it tide over these uncertain times. During the recent earnings call, Suncor CEO, Mark Little stated, "These actions not only support our strong balance sheet, financial health and high investment-grade ratings but adds to the resilience of the company to maintain its focus on long-term value creation."

Suncor is focused on maintaining a strong balance sheet and a disciplined financial strategy. It ended

Q1 with \$8.1 billion of liquidity and has since raised an additional \$1.25 billion through the issuance of 10-year medium-term notes. It secured \$300 million in its bank facilities increasing its liquidity to \$9.6 billion.

A look at valuation and target price

Suncor stock has a market cap of \$38.9 billion and an enterprise value of \$55.8 billion. It has a forward price to sales ratio of 1.04 and a price to book ratio of 0.99.

Analysts expect Suncor sales to fall by a massive 37% to \$24.54 billion in 2020. Comparatively, its earnings are expected to decline from \$2.79 in 2019 to -\$1.9 in 2020. As normalcy returns and oil prices move higher, Suncor sales are expected to rise by 24% to \$30.4 billion. Comparatively, its EPS will also rise to \$0.27.

Analysts have a 12-month price target of \$29.55 for Suncor. This indicates an upside potential of 17.4% from its current price. If you include dividends, you can generate up to 21% in the next year.

Suncor's strong financials, low valuation, and a [debt to equity ratio of](#) 0.54 make it an attractive buy for contrarian and value investors.

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