



Suncor (TSX:SU) Stock Up +5%: How High Can It Rally?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock popped more than 5% on Monday. Is this the start of a bigger rally?

Suncor stock: How high can it rally?

Although Suncor cut its quarterly dividend by 55% to \$0.21 per share in May, the stock has also fallen accordingly. The energy stock's share price is down more than 40% from a year ago and 48% year to date.

At Monday's market close price of \$21.96 per share, Suncor offered a dividend yield of 3.83%, which was at the high end of its normal yield range, suggesting the stock was undervalued.



SU Dividend Yield data by YCharts.

Analysts' average 12-month price target on Suncor of \$31.90 per share represents near-term upside potential of 45% from the current levels of roughly \$22 per share.

Even the most bearish analyst thinks the stock should trade 9% higher. So, the stock has very low risk of downside over the next 12 months. Investors looking for total returns should therefore take a closer look at the energy stock.

The company's annualized payout is currently \$0.84 per share at writing. When the operating environment improves, Suncor would be able to increase its dividend. Even if the dividend only gets back to 80% of its pre-cut levels, it'd still call for a stock price of \$37.20 per share on a 4% yield.

That would equate to upside of 69% over the next two to three years or incredible total returns of 23%-34% per year including the current dividend. Of course, this kind of outperforming returns come with risks. The rally would come with great volatility.

One measure of volatility is the beta. Yahoo Finance currently has a beta of 1.59 on Suncor stock. If the market rises or falls 1%, the energy stock will rise or fall 1.59%.

Factors that can drive a rally in Suncor stock

Higher energy prices: At writing, the West Texas Intermediate (WTI) oil price is at about US\$42 per barrel, while most energy experts will agree that a more normalized WTI price would be in the US\$50-US\$60 range. Higher energy prices will help nudge Suncor stock higher.

Change in energy supply: Monday's +5% pop on the stock had to do with the [shutdown](#) of more than half of Gulf of Mexico's oil production due to severe storms. Lower supply, especially a prompt change like this, typically will cause a short-term surge in energy stocks. Of course, if the matter of question persists for some time, the rally will last longer.

Demand for Suncor stock: Other than **Berkshire Hathaway**, which added to its Suncor position in Q2, other funds, such as the Saudi Arabia's sovereign wealth fund and a Fidelity Canadian Large Cap fund, have also bought substantial amounts of shares in Suncor recently.

When the tide turns for the energy sector, blue-chip, large-cap energy stocks, including Suncor, will be the first companies that capital will flow to.

Greater demand for the shares will only bid up their share prices.

The Foolish takeaway

[Suncor stock is attractively priced](#) for investors who are ready for a volatile ride.

At writing, the stock trades at about \$22 per share and offers a dividend yield of 3.8%. Over the next three years, it can trade at the \$37 range for annualized total returns of about 23%.

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