Should You Buy Suncor (TSX:SU) Stock Now?

Description

Suncor Energy (TSX:SU)(NYSE:SU) stock has fallen 60% year to date, which massively underperformed the Canadian stock market, which fell about 6% in the period.

The energy stock has been greatly depressed by the lower energy demand and pandemic impacts. That said, shareholders shouldn't count out the stock just yet.

Warren Buffett's **Berkshire Hathaway** bought more Suncor shares in the second quarter (Q2). The energy giant is once again trading near its Q2 lows.

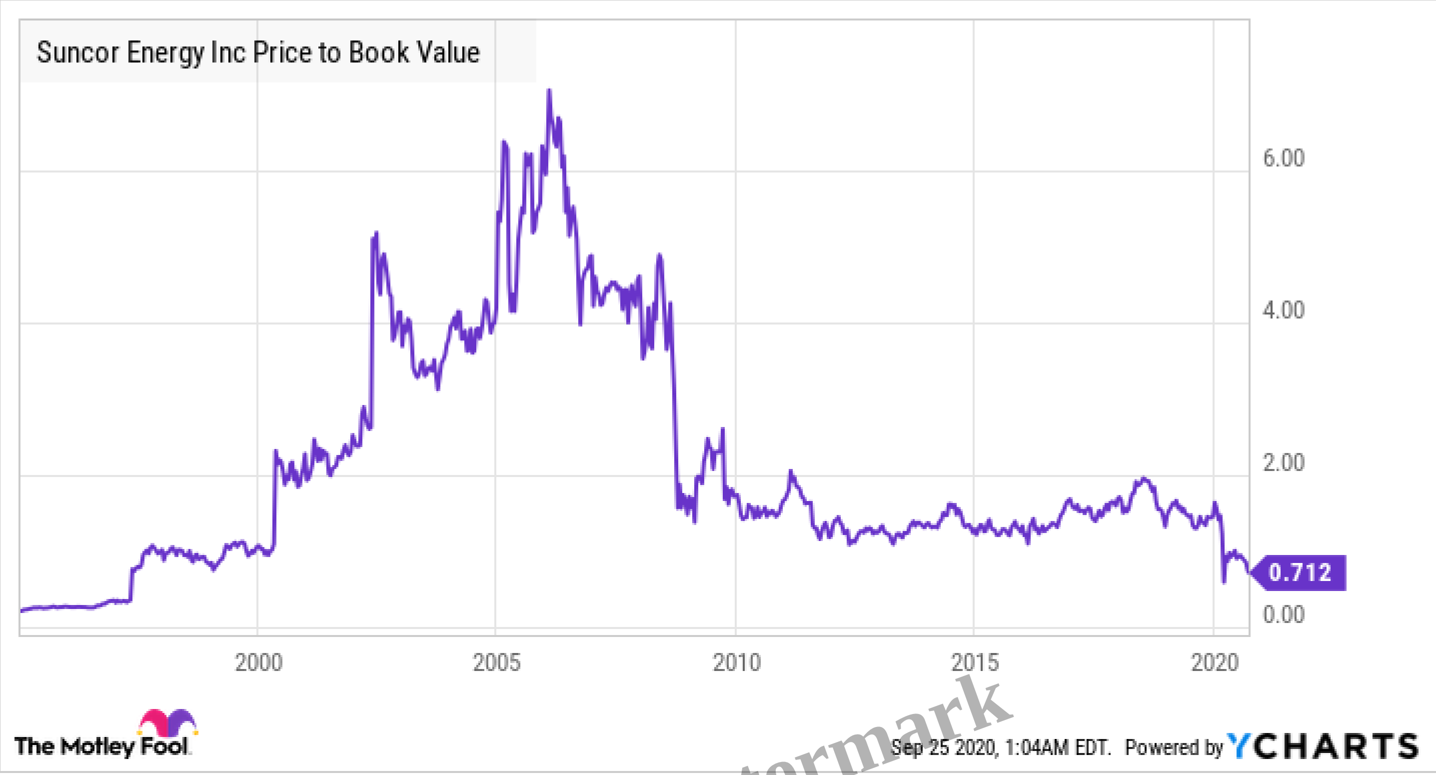
It could make sense for shareholders to add to one's position to lower their average cost basis. Anyone with a multi-year investment time frame who is looking for juicy price appreciation should also take a closer look.

Suncor stock: What investors should look for

The investing community used to hail Suncor stock as a Canadian Dividend Aristocrat — essentially, a **TSX** stock that has increased its dividend for five consecutive years. Unfortunately, due to a tough operating environment, the company was forced to cut its dividend in May by 50%, ending its 18-year dividend-growth streak.

Based on the current quarterly dividend of $0.21 per share, the stock currently yields 4.9%. However, given the unpredictability of its profitability, investors are rightly concerned about the sustainability of its current dividend.

That being said, interested investors should instead focus on the price appreciation potential of the undervalued stock. Suncor stock trades at a historically low valuation at a price to book of about 71%.



SU Price to Book Value data by YCharts.

This stock is so cheap that analysts have an average 12-month price target of $30.50 per share that represents a 79% near-term upside potential. Even more conservatively assuming that, at one point, the stock only returns to its book value, that'd still imply upside of more than 60%.

How's Suncor doing?

Here's a glimpse of Suncor's recent performance. The company's trailing 12-month revenue declined by about 22% against the same period a year ago. In the same period, its EBITDA, a cash flow proxy, declined 59%. This drop coincides with the stock's one-year price decline of just over 59%.

Suncor's financial position remains stable. It maintains an investment-grade S&P credit rating of BBB+. At the end of the second quarter, it had more than $1.8 billion of cash on hand. Its recent current ratio was one, which was the same as a year ago. Over the next 12 months, Suncor will pay out about $1.3 billion in dividends based on its current quarterly payout.

The Foolish takeaway

Suncor is not for the faint of heart. The stock is highly unpredictable and volatile. Given its low valuation, though, it's worth a shot for high-risk investors who can withstand the volatility to take a position for price appreciation.

You should have a positive outlook on longer-term economic growth that will drive stable energy demand again. As well, you should have an investment horizon of at least five years.

Investors should take an active approach should they take a position in the energy stock. Certain news could trigger a temporary pop in the shares, and that could be a good time to book profits.

Oftentimes, dividends that have been cut will get cut again. So, investors should view Suncor stock's 4.9% dividend yield as a bonus. The hope is that the macro environment will improve over the next year so that it won't have to cut its dividend again.

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