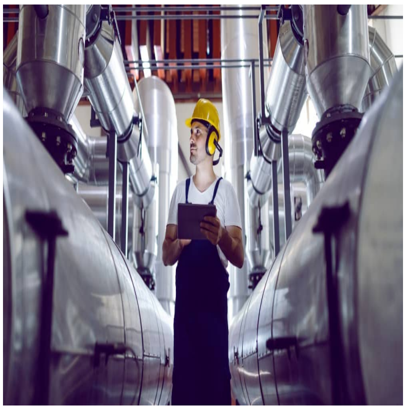

3 Reasons Suncor (TSX:SU) Stock Will Explode

Description

Suncor Energy (TSX:SU)(NYSE:SU) has been unavoidable for value investors this year. The stock plunged along with the rest of the energy sector when it became clear that the world won't be consuming much oil until the pandemic is resolved. Now, Suncor stock is trading at its lowest price since 2003.

For most investors, this is a value trap. Oil demand is expected to decline sharply over the next few decades, even after the pandemic is resolved. Meanwhile, environmental regulations and government policies could make the business of squeezing oil out of sands less lucrative. Nevertheless, I believe Suncor stock deserves a surge for three key reasons.

Oil price

The future of oil is bleak, but it isn't as bleak as investors expect. The price of a single barrel of West Texas Intermediate crude oil tripled from late April to July. Since then, the price has been stable around US$40.

According to a report by the Government of Alberta, the breakeven cost of an oil sands drilling project is US$55 to US$65, which means the market is within striking distance of the price Suncor stock needs to become profitable.

Meanwhile, the persistently low price of crude is driving several high-cost producers out of business and discouraging new investment. A pullback in production will eventually create a shortfall in supply, which could boost the value of crude tremendously, even if demand is gradually declining.

Suncor stock is an obvious beneficiary of this phenomenon.

Buffett's confidence

Suncor stock was one of the few investments Warren Buffett actively added to this year. Buffett's stake in the company surged from 14.9 million to 19.9 million shares this year. That vote of confidence from the world's most famous value investor is an encouraging sign for investors.

I believe Buffett recognizes this potential for a shortfall in oil in production and the undervaluation of Suncor stock.

Suncor stock valuation

Suncor stock hasn't priced in any upside. The stock price is 67% of book value per share at the moment. Meanwhile, the company continues to generate $857 million in leverage-adjusted cash flow and deliver an astounding 5.27% dividend yield.

The strength of Suncor's balance sheet puts it in a good position to survive the next few years, even if oil prices stay below breakeven. The company's debt-to-equity ratio is 60%, which means there's more room to borrow cheaply if needed. Meanwhile, the company has $1.85 billion in cash and cash equivalents on its books.

If Suncor stock simply reconnects with underlying book value at some point, it could represent a 50% upside from current market prices. In other words, this looks like a dollar note you can buy for 67 cents.

Bottom line

Despite the challenges facing the global energy sector, Suncor stock is simply too undervalued to resist. Buffett's confidence, a potential shortfall in oil production and Suncor's underlying fundamentals all justify a re-rating of this company's valuation.

If the stock is valued on par with book value within the next year, investors could be in for a whopping 50% surge.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/07/25
Date Created
2020/10/11
Author
vraisinghani