A Canadian Energy Stock That Could Soar in a Santa Claus Rally

Description

As we bid farewell to the spookily volatile month of October, investors should be prepared for more of the same going into and past America's election day. Surging coronavirus cases could threaten to put hard-hit Canadian cities back into lockdown by month's end, sparking another round of fear-driven selling that could bring us right back into bear market territory (a 20% peak-to-trough decline).

That's not to say that you shouldn't be buying on the continued way down, though. A delayed U.S. stimulus package and a Joe Biden victory appear to be baked into the markets right now. That may set the stage for positive surprises that could fuel a Santa Claus rally, the likes of which the markets may not have seen in years.

Yes, there are tremendous uncertainties that lie ahead. But with other investors running in fear, now is a great time to start getting greedy with some of the harder-hit stocks that may be down considerably more than the broader market indices.

This piece will have a look at one severely oversold stock that I believe could face amplified upside if we are, in fact, due for a year-end rally towards 52-week highs. Without further ado, consider scooping up shares of **Suncor Energy** (TSX:SU)(NYSE:SU), a battered energy stock that looks undervalued and technically sound at today's levels.

The name is flirting with its ominous March depths, and I think it looks poised for a big bounce off its support level at around $15. Suncor stock's valuation is close to the cheapest it's been since the depths of the Great Financial Crisis. And that alone should entice Canadian value investors to put the name at the top of their shopping list.

Suncor stock: Brutal industry outlook, but shares are too cheap to ignore

Suncor is one of the best integrated players in the Albertan oil sands. The company had a solid balance sheet heading into the coronavirus crisis. After steep capacity cuts and a 55% dividend reduction, the firm now has a Fort Knox-like balance sheet that's capable of surviving a potential bear-case scenario. In prior pieces, I've highlighted the likelihood that the firm had lost fans after its dividend reduction that likely jumped to its top peer **Canadian Natural Resources**, which kept its dividend intact through the horrific hailstorm in the oil sands.

While Suncor could have easily kept the dividend intact like its top peer, I thought Suncor management's decision to improve upon its financial flexibility sooner rather than later was only prudent. Suncor ripped the band-aid off, and it's ready for more pain in the oil patch.

If the ailing oil patch doesn't get as ugly as most expect next year, a modest relief rally in the price of oil could entice Suncor to hike its dividend by a generous amount and win back some of the investors it had lost in the months following its dividend reduction.

Investors don't forget dividend cuts. And many will never forgive the dividend cut that Suncor made at a time when investors needed the investment income most.

Still, Suncor shares are far too cheap here at just shy of 0.7 times book value. The freshly cut dividend now yields a safe 5.6% and is worth picking up, even if you're bearish on the long-term outlook for fossil fuels. The doom and gloom in the oil patch, I believe, has become exaggerated, and I think fearless contrarians willing to go against the grain have a lot to gain over the next three years.

Foolish takeaway

Personally, I'd look to accumulate shares while they're sitting at their $15 support level, as they could be overdue for a timely technical bounce. Moreover, Warren Buffett may be adding to his position in the battered Suncor on the way down, which could provide some much-needed relief to the stock.

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