



It's Time to Load Up on Suncor Energy (TSX:SU) Stock!

Description

Well, earnings season is here once again. And **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) kicked it off last week with its Q3 report. It was a quarter that highlighted Suncor's resilience. Listening to the earnings conference call, I was reminded why Warren Buffett is a believer. I also walked away with even more conviction that Suncor stock is a screaming buy today.

Without further ado, let's review some of the key reasons why Suncor stock is a top energy stock to buy now.

Suncor's segmented performance highlights its strengths

The third quarter has been another eventful one, [with the second wave of the coronavirus top of mind](#). For its part, Suncor Energy is moving forward exactly as it should. The company's relentless focus on cost reduction and operational excellence, while maintaining financial health, has gained Suncor Energy the well-deserved reputation of being the best in its class. It's a quality company with sound operational and financial management capabilities that will ensure its viability. As Warren Buffett has said many times, buying a best-in-class stock at cyclically cheap valuations is a sound way to invest.

With its diversified and integrated business model, Suncor has paved a way forward that ensures success. The oil and gas industry, along with energy stocks, are reeling from all sorts of pain. This pain is coming from many different directions. But after falling from grace this year, Suncor is proving itself once again.

Suncor's oil sands operations was the biggest contributor to its cash flow from operations in 2019. It contributed approximately 55% of total cash flow. This was followed by Suncor's refining and marketing operations, at approximately 39% of cash flow. We have seen how the pandemic hit demand and oil prices earlier this year and sent Suncor stock into a downward spiral.

So, yes, Suncor's second-quarter 2020 results were pretty awful. But in the third quarter, Suncor is redeeming itself. The outlook today is promising, as Suncor focuses on what it does best.

Cash from operations increased 25% to \$594 million in Suncor's refining and marketing segment, which represented 51% of total cash flow. It's a far cry from the \$885 million in Q3 of 2019, but sequentially, this is a strong result. Overall, cash flow from operations increased 137% sequentially.

Suncor Energy stock remains cheap, even as the company surfaces more value from its business

The events of this year are already history. Suncor stock has been hit hard and was revalued big time. Today, we should be more concerned with quarter-to-quarter changes in Suncor's financial performance as well as in Suncor's outlook. Suncor management provided a treasure trove of information regarding the outlook in its recent earnings call. This has increased my already positive view on Suncor stock.

The downstream business (refining and marketing) is currently operating at 97% utilization. This is key to ensuring continues strong margins and cash flows for this business. Further to this, Suncor continues to drive costs down and to lower its breakeven point. Costs will be reduced by \$1 billion in 2020 relative to 2019, as structural costs continue to fall and productivity improvements take hold. Suncor is targeting \$2 billion in incremental funds from operations by 2025.

Motley Fool: The bottom line

Suncor's third-quarter results are down sharply from last year. But we are seeing sequential improvements, which is the more important comparison to focus on at this point. This coupled with Suncor's relentless focus on cost reductions and productivity improvements will translate well for the future. Suncor stock will respond by rallying off of its [grossly undervalued levels of well below book value](#). I fully expect Suncor stock will provide shareholders with superior returns once again. Warren Buffett is positioned for this. So should you be.

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