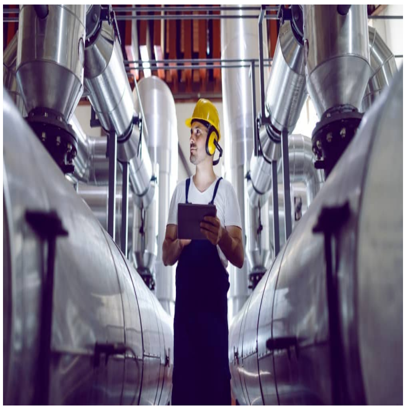

Is it Time to Buy Suncor (TSX:SU) Stock Right Now?

Description

Shares of **Suncor Energy** (TSX:SU)(NYSE:SU) surged close to 20% in the last week after **Pfizer** announced its COVID-19 vaccine had an efficacy rate of over 90%. Several oil producers that were decimated in 2020 experienced an uptick in stock prices last week.

The energy sector was among the worst-hit amid the pandemic, as several countries announced lockdowns, driving oil demand significantly lower. The oil price war between Saudi Arabia and Russia also contributed to this decline.

However, the recent vaccine results have renewed hope for investors. Though the vaccine still has to be approved, manufactured, and distributed, Suncor and peers are already experiencing an improvement in oil demand compared to the second quarter of 2020.

Alternatively, there are some risks associated with investing in the energy sector, as the second COVID-19 wave has threatened another round of lockdowns in North America and Europe.

While there is a lot of uncertainty surrounding this space, let's see if Suncor is a good stock to buy right now.

Suncor's Q3 results

In the September quarter, Suncor's funds from operations fell to $1.66 billion compared with $2.675 billion in the prior-year period. However, it was significantly higher than the $488 million figure in Q2 of 2020.

Operating cash flow stood at $1.245 billion, or $0.82 per share, compared with $3.13 billion, or $2.02 per share, in the prior-year quarter. Suncor reported an operating loss of $302 million, or $0.20 per share, compared to a loss of $1.48 billion, or $0.98 per share, in Q2 and an operating profit of $1.11 billion, or $0.72 per share, in Q3 of 2019.

Suncor managed to reduce operating and capital costs in Q3 and is on track to achieve its previously announced operating cost-reduction target of $1 billion. It also expects to reduce capital expenditure by $1.9 billion in 2020.

Suncor claimed it undertook “significant maintenance activities across its upstream and downstream assets in the third quarter of 2020, which resulted in lower production volumes and refinery utilization.”

It confirmed, “Total upstream production decreased to 616,200 barrels of oil equivalent per day (boe/d) during the third quarter of 2020, from 762,300 boe/d in the prior year quarter, and refinery utilization averaged 87% in the third quarter of 2020 compared to 100% in the prior year quarter.”

What’s next for investors?

Due to the lower demand for oil, Suncor cut its dividends by 55% earlier this year. Its forward yield now stands at 4.6%, which is still attractive for income investors. The company has long-life assets that will generate cash flows in the upcoming decade and a clean balance sheet that has helped it through these uncertain times. Its focus on cost reduction also means another dividend cut is unlikely.

Suncor stock is currently trading at a market cap of $28 billion, indicating a forward price-to-sales ratio of 1.1 and a price-to-book ratio of 0.77. While revenue is forecast to fall by 34% in 2020 to $25.7 billion, it is estimated to rise by 22% to $31.4 billion.

This means if Suncor stock ends 2021 with a price-to-sales multiple of 1.1, it will gain around 23% in market value. If you account for its dividend yield, 12-month returns should be closer to 30%.

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