



Suncor Energy (TSX:SU) Stock Surges 53% in November: Should You Buy Now?

Description

The positive vaccine data has led to strong buying in the stocks and sectors that have been beaten down hard by the COVID-19 pandemic. As the vaccine rally continues, shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) jumped 53% so far this month.

Suncor Energy stock has witnessed noticeable buying in the recent past. Investors remain hopeful that a vaccine against the pandemic could lead to a quick recovery in demand and support the uptrend in its stock.

However, is the rally in Suncor stock sustainable, or will the lack of visibility amid the virus's continued spread drag it down?

Suncor showing strength

While the COVID-19 pandemic continues to have an adverse impact on the energy sector, Suncor showed strength in the most recent quarter and reported a stellar improvement on a sequential basis. Suncor Energy reported funds from operations of \$1.2 billion, or \$0.76 per share, in Q3 compared to \$488 million, or \$0.32 per share, in Q2.

Meanwhile, it reported an [operating loss](#) of \$302 million, or \$0.20 per share, in Q3 compared to \$1.5 billion, or \$0.98 per share, in Q2. While Suncor's Q3 financial numbers remain weak, it reflects a gradual pickup in demand and improving prospects. Also, its focus on lowering its cost base and strong balance sheet is helping to navigate the crisis.

Suncor Energy remains on track to reduce its operating costs by \$1 billion in 2020. Meanwhile, focus on optimizing the per-barrel margin should further support its bottom line and cash flows.

While the energy sector is likely to remain volatile, the strengthening of demand in Asia and an uptick in economic activities point to a recovery in energy stocks. Moreover, better coordination among the OPEC+ nations is lending support to the crude prices.

Valuation multiple could expand further

Despite the recent rally, Suncor stock is still down over 44% on a year-to-date basis and offers good value. Meanwhile, the reopening of the economy and gradual pickup in demand could lead to the further expansion of its valuation multiples.

Suncor Energy trades at a next 12-month EV-to-EBITDA multiple of 1.8, which is well within reach and is lower than its historical average of 2.3. Also, its forward price-to-sales ratio of 1.2 compares favourably to the historical average multiple.

Bottom line

Suncor Energy stock is likely to remain highly volatile amid the large global crude inventories and uncertain demand outlook. However, I see [immense value](#) in Suncor Energy stock at the current levels. Its integrated business model, low-decline and long-life assets, and cost reductions position it well to recover fast from the uptick in demand.

Meanwhile, a medical breakthrough against the virus could give a significant boost to Suncor Energy stock. With the expected economic expansion in the post-pandemic world, Suncor Energy stock could deliver exceptional returns. It also offers a dividend yield of 3.7%, which is likely to boost your overall returns. Investors could use any dip in Suncor Energy to go long on its stock.

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