Should You Buy Suncor Energy (TSX:SU) At These Levels?

Description

Investors' hope of life and businesses soon returning to pre-pandemic ways amid the vaccine euphoria has led oil prices to rise. The surge in oil prices has boosted the stock price of an energy integrated company, **Suncor Energy** (TSX:SU)(NYSE:SU), which owns and operates both upstream and downstream assets. Since the beginning of November, its stock price has increased by over 50%. However, it still trades above 46% lower for this year.

So, should you buy Suncor Energy at these levels? Let's first look at the energy sector's outlook.

Short-term energy outlook

Last week, the U.S. Energy Information Administration (EIA) published its near-term outlook on the energy sector, which expects the Brent oil prices to average around $49 per barrel in 2021. It represents an increase of 14% from the expected average of $43 per barrel in the fourth quarter of 2020. The anticipation of increased oil demand and the announcement by OPEC+ earlier this month to delay or limit the earlier planned production increases in January 2021 have prompted IEA to forecast higher crude oil prices for 2021.

Meanwhile, EIA is forecasting Brent oil prices to average at $47 per barrel in the first quarter, with an expectation of rising to $50 per barrel in the fourth quarter. So, the short-term outlook for the energy sector looks bright.

Further, Wall Street analysts are turning bullish on Canadian oil sand producers. In a note to BNN Bloomberg, Benny Wong and Adam J Gray of Morgan Stanley stated, "With improved cost structures and increased propensity to be capital disciplined, Canadian producers are emerging from the downturn stronger, with greater ability to generate free cash flow."

Suncor Energy's production to increase in 2021

At the end of the last month, Suncor Energy's management provided 2021 guidance on its production levels and capital expenditure. The management expects its overall average production to come between 740,000 to 780,000 barrels per day, indicating a 10% growth from the mid-point of the previous year's guidance.

Suncor Energy has taken several cost-cutting initiatives over the last few years. It has also planned to slash its workforce by 10-15% in the next 12-18 months, amid process and technology improvement — initiatives that could help the company in lowering its 2021 operating cash cost by 8%. Further, the company hopes to increase its downstream utilization rate by 6% to 93%.

Liquidity and valuation

In October, Suncor Energy had delivered a sequentially improved third-quarter performance. Its funds from operations stood at $1.17 billion in the third quarter, representing a 139% increase from $488 million in the previous quarter. Its operating losses also narrowed down to $302 million from $1.49 billion.

Further, its financial position looks healthy, with its liquidity standing at $8.6 billion as of September 30, 2020. The company has also announced quarterly dividends of $0.21, with its dividend yield currently standing at a healthy 3.7%.

Given the significant decline in its stock price this year, Suncor Energy is trading at an attractive valuation. The company's price-to-book value stands at 1, while its forward enterprise value-to-EBITDA stands at 8.1.

Bottom line

Along with improving oil prices, the increased production and lower expenses could drive Suncor Energy's financials in the coming year, supporting its stock price. So, I believe investors with a two- to three-year time frame should buy the stock for higher returns.

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