



Why Suncor Energy Stock Could Be 1 of the Top TSX Stocks in 2021

Description

As far as Canadian energy stocks go, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is one of the most well-recognized names for a reason. Indeed, Suncor's performance of late has been impressive. The stock has nearly doubled from its Q4 lows last year and has a tonne of momentum today.

One might wonder where all this momentum is coming from. After all, energy has generally been an underperforming sector for years.

Well, there are multiple factors at play here. In this article, I'll discuss two of the key drivers of Suncor's outperformance I think investors should keep an eye on.

So, let's get to it.

Growth to value rotation strong

Suncor stock has been a [value pick](#) for quite some time. Indeed, value stocks have greatly underperformed their growth counterparts in this era of low interest rates.

With bond yields and inflation expectations rising, a rotation toward value stocks is underway. This rotation has been supported by strength in commodities, as concerns about the strength of the U.S. dollar and inflation drive commodities prices higher.

This rotation is one I view as robust right now. Indeed, I think investors are likely to continue to rotate into stocks like Suncor that remain well below their all-time highs. With so many stocks breaking record highs on a daily basis, investors are more likely to pursue opportunities like Suncor with better valuations and excellent underlying fundamentals.

This brings me to my next point.

Fundamentals driving capital appreciation in Suncor stock

Yes, there's reason to be bullish for energy-related investments today. Indeed, I believe the broader rotation into value stocks is the tide that is likely to lift all boats right now.

However, not every energy company is the same. When investors analyze a specific stock, taking a look under the hood is important. Understanding the economics of the business and how a given stock's business model looks is just as important as the secular catalysts one expects will boost the entire basket of stocks in said sector.

In Suncor's case, the company's highly efficient operating model is enticing to investors. Through years of investment in technological innovation, the company has reduced its cost basis significantly. Currently, the company's breakeven cost per barrel is US\$35 WTI. Given where oil prices are today, investors can see there's a relatively wide margin of safety with this stock today. Such a margin of safety did not exist in recent years, as evidenced by Suncor's underperformance.

That said, I also believe this margin of safety isn't fully priced into Suncor stock right now. Indeed, Suncor looks like a company with plenty of room to run right now. For long-term investors, that's a great thing.

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