



Forget Reddit Stocks: 1 Cheap Reopening Play to Buy Now

Description

Investors who missed the big rally off the 2020 market crash are searching for top stocks that remain [undervalued](#) today. Let's take a look at **Suncor** ([TSX:SU](#))([NYSE:SU](#)) to see why the stock might be a good buy right now.

Suncor Energy outlook

Suncor is Canada's largest integrated energy company with operations all along the hydrocarbon value chain. The firm is best known for its oil production, but Suncor also owns four refineries that produce gasoline, jet fuel, and other petrochemical products and operates roughly 1,500 Petro-Canada retail locations.

The downstream business has historically served as a good hedge against periods of price volatility in the oil market. A drop in the price of oil due to a surge in global supply would hit production margins but provide cheaper crude oil input costs for the refineries. When fuel demand remains robust, the refineries and retail businesses can generate good profits as a result of the lower oil price.

The pandemic hit all three divisions as the drop in oil prices came as a result of the plunge in fuel demand. Now that countries are beginning to reopen their economies and lift restrictions, Suncor's downstream businesses should benefit from a strong rebound in fuel demand.

WTI oil is above US\$70 compared to US\$36 last fall. Suncor's upstream business can generate strong cash flow at this price level, and investors might see better-than-expected results when the Q2 numbers come out. The back half of 2021 should also be strong. Several analysts expect WTI oil to hit US\$80 this year and oil bulls are calling for a surge to US\$100 at some point before 2025.

ESG initiatives

Oil sands producers are large greenhouse gas (GHG) emitters. This has led a number of institutional investors to dump or avoid Suncor's stock, as they come under [ESG](#) pressure from stakeholders.

Suncor and its oil sands peers recently announced a joint initiative to achieve net zero emissions by 2050. The [alliance](#) will build a carbon sequestration hub and deploy existing and emerging GHG reduction technologies across their operations.

The deal among the handful of large oil sands operators will pool resources and spread out the costs to hit the net zero target. This should benefit investors over the long haul.

Dividends

Suncor slashed its dividend by 55% last year to protect cash flow through the pandemic. The move shocked long-time owners of the stock who expected Suncor to maintain the payout the way it did in previous downturns. Until last year, Suncor was a great dividend-growth story.

The payout cut likely contributed to the plunge in Suncor's share price and has probably capped the upside on the rally. Some of Suncor's peers that maintained or even raised their distributions in the past year have enjoyed stronger recoveries in their share prices.

In the [Q1 2021 earning report](#), Suncor said it will use excess cash flow to reduce debt and buy back shares this year. Investors could see new dividend hikes in 2022.

The bottom line on Suncor stock

Suncor stock trades around \$30 per share at the time of writing. It was \$44 before the pandemic.

Oil prices are already at their highest level in more than two years, and the IEA expects global oil demand and gasoline consumption to recover to 2019 levels by the end of 2022. Based on that outlook, Suncor's share price looks cheap right now.

It wouldn't be a surprise to see the stock top \$40 in 2021 and potentially hit \$50 in 2022 if oil holds its gains and the board starts to hike dividends.

If you have some cash sitting on the sidelines in a TFSA or RRSP, Suncor looks like a good buy right now in an otherwise expensive market.

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