Is Suncor Energy (TSX:SU) a Buy at These Levels?

Description

Suncor Energy (TSX:SU)(NYSE:SU) is an integrated oil company involved in the extraction, refining, and distribution of petroleum products. Amid strengthening oil prices and improved quarterly performance, its stock price has increased by 44.4% this year. However, despite the increase, the company is still trading at a discount of 27.6% from its January 2020 levels. So, is Suncor Energy a buy at these levels? Let's first look at its recent performance and growth prospects.

First-quarter performance

Suncor Energy had reported an impressive first-quarter performance in May amid the strengthening of oil prices and improved operating performance. Its net earnings came in at $821 million compared to a net loss of $3.53 billion in the previous year's quarter. Its funds from operation also improved from $1 billion to $2.11 billion. Supported by these substantial cash flows, the company has reduced its debt by $1.1 billion while repurchasing around 1% of its shares outstanding.

Suncor Energy's outlook looks healthy

The gradual reopening of economies amid widening vaccination and falling COVID-19 infections could drive oil demand higher. Meanwhile, the International Energy Agency (IEA) expects oil demand to reach 100.6 million barrels per day by the end of 2022, exceeding the pre-pandemic levels. The increased demand could strengthen oil prices further.

Higher oil prices could benefit oil-producing companies, such as Suncor Energy. The company's operating metrics could also improve this year. After the planned maintenance last year, Suncor Energy's production is expected to improve this year. Meanwhile, the management expects its average production to come in the range of 725,000-810,000 barrels per day, representing a significant improvement from its 2020 levels of 695,100 barrels per day. Further, the company's refinery utilization rate could also improve from 88% to above 90%.

The management has also taken several cost-cutting initiatives, which could drag its operating expenses down while boosting its margins. Amid improving cash flows, the company's management has planned to utilize two-thirds of its incremental free funds flow to lower its debt levels while the remaining one-third to buy back shares, which is encouraging.

Dividends and valuation

Suncor Energy, which had slashed its dividends by 55% in the first quarter of 2020, is yet to increase its dividends. Currently, it pays quarterly dividends of $0.21 per share, representing a forward dividend yield of 2.72. However, improving cash flows could prompt the company's management to raise its dividends in the future. Its financial position also looks healthy, with its cash and cash equivalents standing at $1.76 billion while having access to $4.43 billion credit facilities.

Despite the recent surge in its stock price, Suncor Energy trades at an attractive valuation. Its forward price-to-sales and price-to-book multiples stand at 18.1 and 1.3, respectively.

Bottom line

Along with rising oil prices, its increased production and improving margins could boost its financials and, in turn, drive its stock price higher. So, investors can accumulate the stock to earn superior returns over the next two years. Meanwhile, analysts are also bullish on Suncor Energy. Of the 20 analysts covering the company, 14 have issued a "buy" rating, while the remaining six have given a "hold" rating. Analysts' price targets range from $28 to $40, with the average price target standing at $35.05, representing an upside potential of over 13%.

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