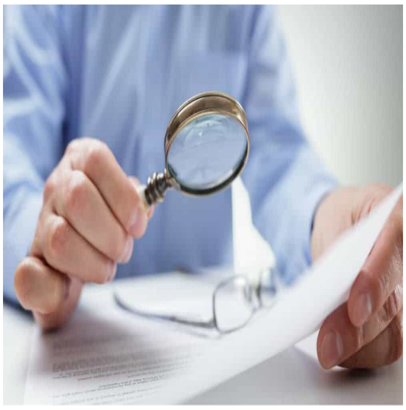

RRSP Investors: 1 Undervalued Canadian Stock to Buy Right Now

Description

Canadian investors are searching for top stocks to put in their RRSP portfolios. The overall market appears overbought right now, but there are still some deals. Let's take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) to see why it appears undervalued today.

Suncor's stock price

Suncor Energy trades near $28 per share at the time of writing. That's nearly double the 12-month low but still way off the $44 mark the stock fetched before the pandemic.

Interestingly, WTI oil currently trades at US$75 per barrel. It was only about US$60 per barrel in early 2020 before the market crash. All things being equal, Suncor stock looks like a screaming buy. The share price is down more than 35% from its pre-crash level while the price of oil is up 25%.

Opportunity

The production assets, otherwise known as the upstream business, should generate strong profits at current market levels. Suncor's Q1 2021 report provided a pretty good indication of how big a difference the rise in oil prices has on results. Funds from operations came in at $2.1 billion compared to $1 billion in the same period last year.

At the same time, oil sands cash operating costs dropped 20% to $23.30 per barrel.

The price of WTI oil has since jumped another US$15 per barrel, so the Q2 results for the production operations should be very good.

Suncor also owns refineries and retail locations. These downstream assets historically provided a nice revenue cushion when oil prices dropped. Last year, however, they took a hit as fuel demand plunged. The second half of 2021 should be positive for these divisions of the company. Airlines are ramping up domestic flights in the United States and Canada. At the same time, people are hitting the road for summer vacations, and commuters are expected to return to their offices in the fall. This all bodes well for jet fuel and gasoline demand.

Beyond 2021, oil demand should be strong as the global economy emerges from the pandemic. In the June oil market report, the IEA says worldwide demand will recover by the end of next year, and stockpiles that were built up over the past year have already returned to pre-pandemic levels. Bullish analysts think WTI oil could surge to US$100 per barrel in the next year or two due to tight supplies caused by industry-wide cuts to investment that occurred in 2020.

OPEC+ has some flexibility to boost supply, and negotiations with Iran are also important to watch. A reduction or elimination of sanctions could allow Iran to release vast stockpiles into the market. This would likely trigger a short-term drop in oil prices. That said, the anticipated rebound in market demand over the next few years might be strong enough to absorb these potential supply increases.

Dividend

Suncor slashed the dividend by 55% last year to protect cash flow. The move upset long-term investors who relied on the stability of the payout, and the distribution cut might be a reason why the stock continues to lag some of its peers. Suncor intends to use excess cash to reduce debt and buy back stock in 2021. The unexpected rally in the price of oil through the first half of the year might give the board the confidence to boost the payout, as well. If a big dividend increase is announced when the Q2 or Q3 results come out, the stock could take off.

The bottom line for RRSP investors

Volatility should be expected in the oil market, but RRSP investors who buy Suncor right now can get a 3% yield and have a shot at some serious upside potential in the stock price over the next 12-18 months. If you have some RRSP cash to put to work, Suncor looks attractive right now.

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