Suncor Stock: Should You Buy the Dip as Oil Tanks?

Description

In this piece, we'll have one Canadian stock to buy on weakness, as "Delta" and other COVID-19 variants hog the limelight of the mainstream financial media. Enter former Warren Buffett-owned stock **Suncor Energy** (TSX:SU)(NYSE:SU), which sagged 4.1% on Monday, as WTI (West Texas Intermediate) prices nosedived 7.5% to US$66 and change.

It was a vicious selloff across the energy sector. But it shouldn't have come as a surprise, as oil's epic run was bound to falter at some point or another. Commodities have really sagged in recent weeks, and oil was no exception. With OPEC+ striking an agreement over new supply, there may be even more pain in the cards for the big oil stocks.

Fortunately, WTI staying above US$70 per barrel likely wasn't priced into the top producers — Suncor included.

Suncor stock can't catch a break

Suncor stock now finds itself down 19% from 52-week highs, close to levels seen in the second quarter of 2020.

Yes, the oil producers deserved to sell off in conjunction with the pullback in oil. But given that Suncor is one of the producers that failed to hit (or even come close to) 2020 pre-pandemic highs, I think shares should have been granted a free pass. Or, at the very least, Suncor stock shouldn't have plunged as viciously as it did after many weeks of excessive selling!

Indeed, it seems like Suncor shareholders are suffering from a bad bout of indigestion without having enjoyed the feast of a rally that many other producers enjoyed up until oil's latest pullback.

Suncor stock is currently sitting down 44% from its January 2020 peak level, and the shares could easily be headed back to the low $20s on the back of rapidly retreating oil prices. Despite weakening industry conditions and the potential for more pain, I think investors should look to buy Suncor stock on the dip.

Even if oil normalizes in the low to mid-US$55-60 range, Suncor still seems way too undervalued, with shares trading at just $25 and change per share. The stock trade at just over one times its book value and 1.4 times sales, making it one of the biggest bargains on the entire **TSX Index**.

Management being punished for being too prudent?

In prior pieces, I'd noted the likelihood that many Suncor investors jumped ship when the company decided to reduce its dividend to improve the state of its balance sheet, which was already in relatively decent condition.

Undoubtedly, management was bracing for the effects of a "lower-for-longer" environment, not oil prices above US$70 in just over a year. Suncor's recovery dragged, and it eventually surrendered the title of the largest player in the Canadian oil patch to its top peer, **Canadian Natural Resources**, which went on to post a full recovery.

With one of the better dividend-growth trajectories in the energy patch and one of the lowest prices of admission (nearly one times book value), Suncor strikes me as a falling knife that's worth trying to catch, even as oil continues to retreat.

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