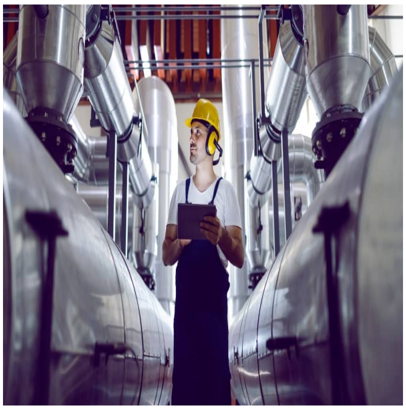

Suncor (TSX:SU) Stock: Is It Comically Undervalued?

Description

Canada's oil sands king had a forgettable 2020 and so did its loyal investors. **Suncor Energy** (TSX:SU)(NYSE:SU) lost its Dividend Aristocrat status after slashing dividends in Q1 2020. Management cut the yield by 55% following a multi-billion-dollar loss during the quarter.

Before the dividend reduction and suspension of share buybacks, the share price tanked to as low as $10 on March 18, 2020. According to Suncor CEO Mark Little, the move was necessary to shield the balance sheet. He adds that in such unprecedented conditions, management's strategy stood out as a competitive differentiator.

The energy stock barely recovered, posting a 46.7% loss in 2020. However, the picture is entirely different this year. People are now talking about how high Suncor could go in 2021 because of the industry tailwinds. Likewise, the $31.53 billion integrated energy company appears to be a grossly undervalued stock, which borders on comical.

Emerging from the abyss

Suncor's losses in the COVID-19 year were staggering. The company reported a net loss of $4.3 billion versus the $2.9 billion net earnings in 2019. Nevertheless, management decisive steps after Q1 2020 enabled the company to preserve financial health and maintain its liquidity heading into 2021.

The base business reductions brought down operating costs by $1.3 billion. Moreover, Suncor achieved its year-end capital reduction target of $1.9 billion. It also reduced capital expenditures by 33% to $3.8 billion compared to the original midpoint 2020 capital guidance.

Mighty rebound

As of July 23, 2021, Suncor has emerged from the abyss and trades higher at $26.14. The year-to-date gain is a gain of nearly 24.3%. While the dividend yield is lower compared to the pre-pandemic level, it's a decent 3.24%. Investors delighted in the most recent earnings results because they were better-than-expected.

Suncor picked up from where it left off in Q4 2020. Its CEO said, "Building on the previous quarter's operational momentum, Suncor generated $2.1 billion in funds from operations, far exceeding all of our capital expenditures and dividend commitments in the first quarter of 2021."

For the three months ended March 31, 2021, management reported $746 million in operating earnings versus the $421 million net loss in the same period in 2020. The 46,100 barrels of oil equivalent per day (BOE/D) increase in upstream production was a significant factor for the turnaround.

Notably, Suncor posted $821 million in net earnings compared to a $3.5 billion net loss in Q1 2020. If you combine the Q4 2020 and Q1 2021 synthetic crude oil (SCO) production performances, it was the best sequential result ever in the company's history. The last two quarters will determine if the energy stock can reclaim lost glory.

Momentum stock

CEO Mark Little reiterates that Suncor Energy's financial health and resiliency remain the key focus for the rest of 2021. Management will not wander away from its capital allocation framework that aims to reduce debt, invest in long-term profitable growth, and increase shareholder returns.

Investors eagerly await the presentation of the Q2 2021 financial results on July 28, 2021. Market analysts are bullish because Suncor Energy is not only undervalued but a momentum stock. They see a return potential of not less than 46.5% in the next 12 months. Don't be surprised if the price soars even higher in August after the quarterly results are out.

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