Should You Buy Suncor After Earnings?

Description

Suncor (TSX:SU)(NYSE:SU) specializes in the production of synthetic crude from oil sands. Back in May, I'd looked at whether the stock was worth snatching up after its first-quarter 2021 earnings release. Shares of Suncor have climbed 14% in 2021 as of close on July 30. However, this top energy stock has plunged 16% month over month. It released its second-quarter 2021 earnings on July 28. Should you look to snatch up Suncor on the dip? Let's dive in.

What is happening in the oil and gas sector this summer?

Energy stocks put together a fantastic run in the first half of 2021. Oil and gas prices surged on hopes for an economic rebound on the back of the global vaccine drive. This, in turn, drove up prices for Suncor stock and its Canadian peers.

Unfortunately, the rise of the Delta variant has spooked investors. Oil and gas prices have retreated and stagnated due to these fears. On Monday, oil prices took another hit over concerns that China's economy was also threatening to slip. A recent survey showed that growth in factory activity slowed. China is the world's second-largest oil consumer. These fears were compounded by a rise in oil output from OPEC producers.

These conditions have generated some headwinds for Suncor and the broader energy space.

How does Suncor's Q2 earnings release look?

Suncor reported funds from operations (FFO) of $2.36 billion, or $1.57 per common share, in the second quarter — up from $488 million, or $0.32 per common share in the prior year. Meanwhile, cash flow from operation activities jumped to $2.08 billion compared to $768 million in Q2 2020. The top energy company delivered a profit of $868 million on the back of increased oil output. Indeed, its total upstream production rose to 699,700 barrels of oil equivalent per day (boe/d) on the back of strong oil sands operations production.

The company posted impressive turnaround activities at its top refineries. It exited the quarter with refinery utilization of roughly 94%. This has set up Suncor for a strong second half of 2021. Moreover, Canadian gasoline and diesel demand is expected to be 13% below the comparable pre-COVID 19 period in 2019. It anticipates this to improve to 6% below comparable 2019 levels in July and August.

Suncor and its top oil sands-producing peers are pushing to achieve net-zero GHG emissions from oil sands operations by 2050.

Should you buy the stock today?

In mid-July, I'd discussed why Suncor and some of its peers looked undervalued. That is still the case after the release of a strong second quarter for the top oil producer. Shares of this energy stock last had a price-to-earnings ratio of 24. It saw a huge spike in this area due to its return to profitability. The stock last had an RSI of 29, which puts Suncor in technically oversold territory.

Investors can also rely on Suncor's quarterly dividend of $0.21 per share. That represents a 3.4% yield. The company aims to boost its dividend, as the cash flow situation improves going forward.

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