TFSA Investors: 1 Cheap Canadian Stock to Buy Now

Description

The **TSX Index** continues to trade near record highs, but TFSA investors can still find top Canadian stocks at cheap prices.

Suncor

Suncor (TSX:SU)(NYSE:SU) trades near $24 per share at the time of writing. That's off the 2021 high above $31 and way below the $44 the stock fetched before the pandemic.

A pullback in oil prices is largely to blame for the recent slide in the share price. WTI oil hit US$75 per barrel in July. The current price is close to US$68. This is still a very profitable level for Suncor and its peers, so the dip might be a bit overdone. The stock is also down after Suncor's Q2 2021 earnings report failed to excite investors.

What's the scoop?

The rebound in the oil market has greatly improved Suncor's cash flow and profits. The company generated $2.36 billion in Q2 funds from operations compared to $488 million in the same quarter last year. Net earnings came in at $868 million versus a net loss of $614 million.

That should have put a new tailwind behind the share price, but the market was disappointed by the production guidance for the coming months. Suncor said it is dealing with some operational issues at its Fort Hills facility. Again, the reaction seems a bit harsh considering the fact that the problems should be resolved by the end of the year.

Dividends

Investors might also have anticipated a dividend hike, given the strong rebound in oil prices. That didn't happen. Instead, Suncor is sticking to its 2021 plan of using excess cash flow to reduce debt and buy back shares. In fact, the board just increased the share-repurchase target to 5% of all outstanding common shares.

This is a good indication that Suncor's management team sees the share price as being undervalued and is taking advantage of the cheap stock price to reduce the outstanding float. Existing shareholders tend to benefit from share buybacks, as they increase the percentage of the company each shareholder owns.

Suncor slashed its dividend by 55% at the start of the pandemic. This upset long-time owners of the stock who relied on the payouts. Suncor will likely raise the distribution again in 2022, but it is going to take some time to regain credibility among income investors.

At the time of writing, the stock provides a 3.5% yield.

ESG

Suncor and its oil sands competitors know they are large emitters of carbon dioxide. With global institutional investors adopting new ESG mandates, the pressure on the oil industry has increased significantly to set up net-zero emissions goals. Suncor and four other oil sands producers have formed a partnership to explore options for creating carbon capture, utilization, and storage facilities, as they work towards a 2050 net-zero greenhouse gas emissions target.

Should you buy Suncor stock now?

Oil demand is expected to rise for years, even as the world works towards reducing the need for fossil fuels used to create electricity and power planes, trains, boats, and automobiles.

Suncor generates good profits at current oil prices and its downstream refining and retail operations should rebound strongly in the back half of 2021 and through next year. Operational issues at Fort Hills are temporary, and big dividend hikes could be on the horizon. As such, the share price looks cheap right now.

If you are an oil bull and have some TFSA cash to put to work, Suncor stock deserves to be on your radar today.

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1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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