



1 Top Stock to Buy Now for 2022

Description

As we head into the last few months of 2021, investors are starting to look for top stocks that could be [undervalued](#) today and might outperform in 2022. The energy sector is one area that could deliver large gains next year, and **Suncor** ([TSX:SU](#))([NYSE:SU](#)) might be a good contrarian pick to consider right now.

Suncor's tough times

Suncor is in the doghouse, which is rare for Canada's largest integrated energy company. The stock has historically been a favourite among oil sector investors due to its diversified revenue stream that includes production, refining, and retail operations.

When oil prices fell in the past, the stock tended to hold up better than the pure-play producers, supported by the downstream business units. The pandemic, however, is a unique situation, where the plunge in fuel demand impacted the entire company. Margins slumped in the production business, while the lack of air travel and absent commuters hammered demand for jet fuel and gasoline. This meant fewer sales at Suncor's roughly 1,500 Petro-Canada gas stations and a reduced need for refining operations that use crude oil feedstock to produce the various fuels.

Suncor slashed its dividend by 55% early in the pandemic. This was an unprecedented move by a dividend star that had maintained or even raised the distribution through previous downturns in the oil market. Investors voted with their feet, sending Suncor's stock price from \$44 before the pandemic to \$15 last fall when oil dipped below US\$40 per barrel.

At the time of writing, Suncor trades near \$23 per share, down significantly from the 2021 high around \$31. The stock has recently come under added pressure after the Q2 2021 results indicated some operational challenges at a key production facility. The next few months might see ongoing volatility while the company sorts things out, but any further downside in the share price should be viewed as an opportunity to buy the stock ahead of a potentially strong 2022.

Outlook for 2022

Airlines are quickly increasing capacity, and that trend should continue as travel restrictions ease. Companies are also starting to call employees back to the office, and this should trigger a surge in gasoline demand. Many people who might have previously used public transport or lived in the city are now planning to drive, either out of a fear of being jammed like sardines on subways and busses or due to the fact that they swapped the condo for a house in the suburbs.

Oil prices are already back to levels that enable Suncor to generate strong profits. Refining and retail should recover by the end of next year.

In the meantime, Suncor's stock looks undervalued at current levels. The company is using excess profits to reduce debt and scoop up cheap shares. A return to dividend growth should be on the way for 2022.

Risks

The spread of the Delta variant in China and the United States could derail the reopening process and delay the anticipated rebound in fuel demand. This should be a short-term issue, unless another variant emerges that infects people who are already vaccinated and causes severe symptoms.

Should you buy Suncor stock now

Oil trades higher than it did in early 2020 before the arrival of COVID-19, so the drop in Suncor's share price looks overdone. If you are an oil bull, Suncor deserves to be on your buy list today. I think this stock will outperform the market in 2022 and could potentially recover all of the pandemic losses.

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