



Hottest Oil Play: Buy, Don't Sell, Suncor Energy (TSX:SU)

Description

The TSX's energy sector maintains the number one position on the leaderboard as we approach the ninth month of the year. As of August 27, 2021, the sector outperforms the broader market at +35.92 versus +18.42. If you're looking for the hottest oil play, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is the [best buy](#) today.

The [undervalued stock](#) has impressed investors with its remarkable turnaround this year. In Q2 2021 (quarter ended June 30, 2021) alone, Suncor generated \$2.4 billion in funds from operations. Its president and CEO Mark Little said, "The improved cash generation enabled us to increase shareholder returns to approximately \$1.0 billion."

Operating earnings

For the first half of 2021, Suncor reported net earnings of \$1.7 billion compared to the \$4.1 billion net loss in the same period in 2020. Moreover, net operating earnings were \$1.46 billion versus the \$1.76 billion operating loss. Mr. Little noted the strong oil sands base mining and upgrading production and consecutive quarterly production records. He said it was the best start in Suncor's history at oil sands operations.

Medium-term outlook

Management will continue to execute Suncor's plan to structurally lower its cost base in the near term. It should result in improved productivity, smooth transition of Syncrude operatorship, and continuing digital transformation. Little disclosed the strategy would optimize the base business' value as well as improve Suncor's cost and capital efficiency.

Oil sands alliance

Suncor Energy also allied with four industry partners in Q2 2021. The Oil Sands Pathways to Net Zero

alliance aims to achieve net-zero greenhouse gas (GHG) from oil sands operations by 2050. The group, which includes **Canadian Natural Resources**, **Cenovus Energy**, **Imperial Oil**, and **MEG Energy**, produces 90% of the total oil sands production.

In Q1 2021, Canada's biggest pension managers increased their investments in the alliance members, except for MEG Energy. The pension funds, led by the Canada Pension Plan Investment Board (CPPIB), collectively manage more than \$1.4 trillion in assets.

Based on published reports, the cumulative investment increased 147% to \$2.4 billion. The pension funds hope that oil sands producers will keep their promises to produce cleaner energy sooner than later. Suncor will accelerate its GHG reduction targets while growing its business in low GHG fuels, electricity, and hydrogen. It hopes to transform its GHG footprint and become a net-zero company by 2050.

Potential dividend increase

Suncor Energy also targets an absolute net debt by 2025. Besides debt reduction, the company will allocate its incremental funds (\$12 billion to \$15 billion) for share buybacks and dividend increases. The energy stock lost its [Dividend Aristocrat](#) last year when it slashed dividends by 55%.

Now, investors can expect the current dividend yield of 3.47% to increase soon. Suncor Energy paid a total of \$958 million in Q2 2021 for shareholder cash returns. About \$643 million went to share repurchases and \$315 million to dividends.

Better financial shape

Suncor Energy is in better financial shape than ever before. Besides being vertically integrated, the assets of this low-cost producer are for the long haul. Investors should take advantage while the share price is only \$24.20. Market analysts forecast a potential upside of 52.46%. Your total return should be higher if you were to factor in the dividend yield.

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