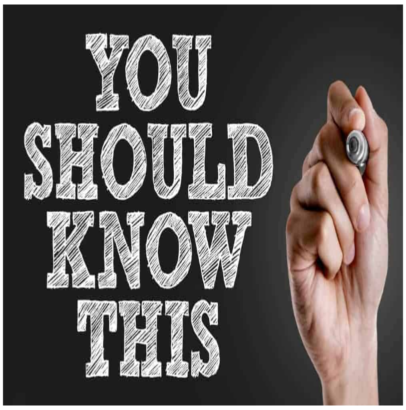

2 Undervalued TSX Stocks to Buy in September 2021

Description

While the overall **TSX Index** looks expensive right now, investors can still find some top TSX stocks that trade at attractive prices and could deliver huge gains heading into 2022.

Suncor

Suncor (TSX:SU)(NYSE:SU) trades near $24.00 per share at the time of writing. That's down from 2021 high above $31 and well off the $44 the stock fetched before the pandemic. The interesting thing is that West Texas Intermediate (WTI) oil now trades above US$70 per barrel, which is more than 10% higher than the price before the pandemic crash.

Suncor is making good margins on the production side of the business at the current market price for crude oil. We saw this in the Q2 2021 earnings report. Suncor generated $2.36 billion in funds from operations during the quarter compared to a loss of $1.35 billion in the same period last year.

Suncor is using excess cash in 2021 to buy back shares and reduce debt. The company repurchased 23 million shares in the quarter for $643 million, representing 1.5% of the total outstanding common share float. The board has since raised the repurchase target to 5% of the outstanding common share as of January 31 this year.

Gasoline demand is rebounding as more people hit the roads to commute to work or take trips. This should drive improved results at Suncor's refining and retail operations in the coming months.

The board cut the dividend in 2020 to protect cash flow. Now that oil prices have rebounded and will likely hold the gains, investors should see a large dividend increase next year.

The current payout provides a 3.5% dividend yield.

Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) offers oil and gas producers a variety of services to help them get their products to market. The company has grown steadily over the past six decades through a combination of strategic acquisitions and organic developments.

Pembina Pipeline's share price plunged at the start of the pandemic, but the selloff was heavily overdone and the shares have since rebounded nicely. However, at $39 the stock still looks undervalued and investors can pick up a solid 6.4% dividend yield. Pembina Pipeline traded above $50 per share before the COVID-19 crash.

Management moved quickly in the early part of the pandemic to raise funds to shore up the balance sheet. The company is now focusing on new growth opportunities. Pembina lost a battle to buy Inter Pipeline earlier this year, but other deals could emerge as the energy infrastructure industry consolidates.

Pembina Pipeline is also restarting internal projects that went on hold last year. As the oil market continues to recover, the capital program should expand.

Pembina Pipeline might also become a takeover target. Existing pipelines should become more valuable in an era where it is very difficult to get new large projects built. The current market capitalization is about $21 billion, so a larger player in the industry or an alternative asset manager might decide to buy Pembina Pipeline.

The bottom line

Suncor and Pembina Pipeline are top-quality companies in their respective sectors. The stocks appear cheap right now for a buy-and-hold portfolio and could deliver huge gains once the money starts to flow back to the energy sector. In the meantime, you get paid decent dividends and should see meaningful payout hikes in 2022 and beyond.

CATEGORY

1. Energy Stocks
2. Investing

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aswalker