1 Cheap TSX Stock to Buy Now

Description

The **TSX Index** looks overbought, but some top Canadian stocks still look undervalued for a TFSA or RRSP portfolio today. Let's take a look at **Suncor** (TSX:SU) (NYSE:SU) to see why it might be a good stock to buy right now.

Why Suncor stock looks cheap

Suncor trades for close to $23.50 at the time of writing. That's up quite a bit from the 12-month low around $14 but down from the 2021 high at $31 and significantly off the $44 it fetched in January 2020 before the arrival of the pandemic.

This is in contrast to a good chunk of the TSX Index stocks that trade near or at new all-time highs. Even some of Suncor's oil sands peers have recovered all of their 2020 losses. So, what's going on with Suncor?

The board's decision to slash the dividend by 55% last year is a big reason Suncor has underperformed. Long-time investors who relied on Suncor's steady dividend increases couldn't believe the company cut the payout by that much. To add to the pain, investors in **Imperial Oil** and **Canadian Natural Resources** received double-digit dividend increases in 2021.

Suncor has decided to use the profits from the rebound in oil prices this year to pay down debt and buy back shares. The decision to not raise the payout in 2021 might upset investors, but it should pay off over the long run. In the meantime, investors might want to add the stock to their portfolios while it remains cheap.

Outlook

Suncor's upstream operations are generating good margins at the current oil prices. WTI oil is now back above US$70 per barrel after a recent dip. Bullish analysts say WTI could push above US$80 next year and even take a run at US$100 before 2025. The theory is that demand will ramp up, as the global economy rebounds. OPEC and other producers have some spare capacity too keep the market balanced, but the massive cuts across the industry to exploration and development that occurred last year could result in a tight market over the medium term.

ESG pressures and commitments to hit net-zero emissions by 2050 might also result in fewer new development sites being built.

Suncor's downstream operations include four refineries and roughly 1,500 Petro-Canada retail locations. These businesses historically served as good revenue hedges when oil prices fell. During the past year, however, fuel demand dried up, and that hammered the two segments.

Looking ahead, commuters are expected to hit the roads in large numbers in the coming months, as businesses call people back to the office. Airlines are also ramping up capacity amid the easing of travel restrictions. This should help the refining and retail operations bounce back next year.

The stock came under additional pressure in the past few weeks due to operational issues at the Fort Hills oil sands facility. Suncor expects to resolve the problems in the next few months, so they shouldn't have a long-term impact on production.

Is this a good time to buy Suncor stock?

Suncor appears oversold right now if you are of the opinion that oil prices will maintain or extend the 2021 gains through 2022 and beyond. Fuel demand could recover stronger than anticipated if millions of people who previously used public transport decide to drive to work more often when they are required to return to the office.

The current dividend provides a 3.6% yield. It wouldn't be a surprise to see Suncor give investors a large dividend increase in each of the next two years to get the payout back to the pre-pandemic level. If that turns out to be the case, the stock could soar in 2022.

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