Is Suncor Stock a Buy?

Description

Whenever you're looking to buy a Canadian energy stock, one of the top stocks you always have to consider is **Suncor** (TSX:SU)(NYSE:SU).

There's a reason why it's one of the most popular stocks among Canadians. It's a massive business that's easily one of the highest-quality energy stocks in North America.

There are a lot of benefits to buying a stock like Suncor. In addition to excellent long-term growth potential, it's also a stock that is quite a bit more stable than its energy industry peers.

There's a reason why Warren Buffett, one of the best investors of all time, has owned Suncor in the past — one of his few investments in Canadian stocks.

But with the stock underperforming significantly over the last six months, you may be wondering if you should buy Suncor stock today.

The benefits of owning Suncor stock

One of the first and most important benefits of owning a stock like Suncor is that it's a massive company that offers a tonne of natural resiliency. However, its operations are also well diversified, only increasing the strength of its business.

Suncor is one of the few integrated oil stocks in Canada. Not only does it produce oil, but it also has midstream operations, and it has a retail segment with roughly 1,500 gas stations across Canada.

These integrated operations are one of the main reasons why it's such a high-quality stock, as it helps Suncor stock to control its costs a lot better than its industry peers.

This allows Suncor's breakeven oil price to be lower than most other producers, meaning it can make money for a lot longer than most when oil prices are falling.

In addition to its operations, the stock also has a high-quality management team and a business with a track record of strong and consistent growth.

All of this makes it a great company to own, but it doesn't necessarily mean its stock is a buy today. So, let's look at the value that Suncor stock offers investors in the current environment.

Is Suncor worth a buy today?

If you want to decide whether Suncor stock is a buy today, you have to consider both its current value as well as the outlook for the company and the industry over the coming years.

With all the impacts on the oil industry over the last year and a half, Suncor has faced severe headwinds. This is evidenced by the fact that its earnings per share over the last four quarters were just $1.00, and therefore its trailing price-to-earnings ratio is a whopping 24.7 times.

However, going forward, the industry is recovering well, and Suncor is in a prime position to rebound rapidly. So, it's no surprise that Suncor stock has a forward price-to-earnings ratio of just 7.5 times at this current market price.

Suncor stock is down almost 50% from where it was before the pandemic. So as soon as the company can recover even close to what it was earning before the pandemic, its share price should gain rapidly.

Right now, of the 12 analysts covering the stock, nine have it rated a buy, and the average target price is over $35 — a more than 50% premium to today's price. This only confirms the opportunity the stock is offering long-term investors today.

So, if you're considering an investment in Suncor, the stock looks considerably undervalued, and as long as the global economy can continue to recover, it likely won't stay this cheap for much longer.

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