



Is Suncor (TSX:SU) Stock Undervalued?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) was one of the top stocks for those seeking dividends. Suncor stock offered a juicy yield with plenty of growth behind it. By 2018, it was making investments to expand its operation even further, as the country's largest fully integrated oil and gas company.

But when the oil and gas glut of 2018 hit, shares of Suncor stock plummeted. On the one hand, Warren Buffett bought up even more of the stock. On the other, many feared the purchase was a bit premature — especially when the pandemic hit.

Shares of Suncor stock fell even further, reaching lows of around \$15 per share. Since that time, shares have increased by about 70%. However, the stock is still far from its 2018 highs of near \$50 per share.

But with still so much uncertainty, is Suncor stock undervalued on the **TSX** today?

Where Suncor stock is today

Now that we've had a bit of a history lesson, let's see where Suncor stock is today. Shares of Suncor stock are up 16.5% year to date, with shares growing about 9% in the last month alone. The last quarter is certainly a part of that. Funds from operations during the quarter reaching \$2.362 billion, way up from the \$488 million the year before. Operating earnings were also up to \$722 million, again far up from the loss of \$1.345 billion the year before. Upstream and downstream production both increased as well.

This is all incredibly positive compared to 2020; however, compared to second quarter of 2019, it's still lower. Funds from operations in that quarter was over \$3 billion, with net earnings at \$2.729 billion. So, there is still a long way to go for this company to reach pre-pandemic norms on the TSX today. And even then, this was during the glut in production.

But, Suncor stock management seems to believe the company is undervalued. The company continued to buy back shares, repurchasing 23 million during the quarter for \$643 million. That's

compared to repurchasing \$522 million worth of shares in the second quarter of 2019. So, what does management know that we possibly don't?

Future outlook

It's not necessarily that management knows anything different. In fact, the oil and gas demand alone could be why the company is buying back shares. Suncor stock, as the largest fully integrated operation, does stand to make back cash quicker than its competitors. However, this won't necessarily matter if the world turns to clean energy production.

It's estimated that US\$10 trillion will go into clean energy over the next decade. And true, Suncor stock wants to be a part of that. In fact, the company aims to be at net-zero greenhouse gas emissions by 2050. It's already bought into wind farms and solar panels, and this could turn greater if the company can afford the [investment](#). But that's a big if.

Foolish takeaway

As for right now, shares of Suncor stock trades at fair value if you look at its fundamentals. Its P/E ratio sits at 24.42, though its EV/EBITDA is a bit more valuable at 7.1. Then there's its relative strength index trading at 58 — almost dead centre at fair value.

But analysts believe Suncor stock will continue to grow in the last year, and this is where they believe the stock could be undervalued. With oil and gas on the rise, in the short term there could be a potential upside of 45% in the next year. But whether that lasts is the real [question](#). For those hoping for the Suncor stock of old, it may be dead and gone.

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