1 Cheap TSX Stock to Buy Ahead of Q3 2021 Earnings

Description

Earnings season is underway, and investors are searching for top TSX stocks that look undervalued ahead of the Q3 2021 earnings reports.

Let's take a look at **Suncor** (TSX:SU)(NYSE:SU) to see why it might be an interesting pick today.

Suncor overview

Suncor is expected to release its Q3 2021 earnings results after markets close on October 27. The oil sands giant has underperformed its peers in 2021, and investors will be looking for some good news that could put a tailwind behind the stock through the rest of the year and into 2022.

Suncor's oil production operations are enjoying much better margins today than a year ago. WTI oil is up from US$36 per barrel in late October 2020 to the current price around US$83 per barrel. Suncor's numbers should be strong for Q3 2021. In addition, Q4 guidance is likely to be even better.

Suncor's downstream operations, which includes refineries and roughly 1,500 Petro-Canada retail locations, took a hit in 2020 due the crash in fuel demand caused by pandemic lockdowns. Now that travel restrictions have eased and people are starting to hit the highways again, jet fuel demand and purchases of gasoline are rebounding. Office workers are largely still home-based, but that is expected to change through the first half of 2022.

Gasoline demand could bounce back faster than expected if thousands of commuters who previously took public transportation decide to drive to work for the two or three days a week they need to be in the office.

Cheap stock price

Suncor trades near $29 per share at the time of writing. The stock was above $40 before the pandemic. Interestingly, WTI oil traded for about US$60 at that point. All things being equal, Suncor's share price should be much higher than it is today.

Management knows the stock is cheap. The company has used excess cash in 2021 to reduce debt and buy back shares. The board adjusted the share-repurchase program in recent months to enable Suncor to boost the size of the share repurchases. Suncor bought 2.3% of the outstanding shares from February to the end of June of this year, and the company can now buy back up to 5% of the common stock under the current NCIB.

Dividend outlook

A large dividend increase should be on the way in 2022. This could help push the stock higher and close the gap between Suncor and its peers. Suncor slashed the payout by 55% in 2020 to preserve cash. Two other oil sands producers gave investors large dividend increases in 2021.

Suncor will want to rebuild credibility with dividend investors who previously owned the stock for its reliable distribution growth. Even during challenging times, such as the financial crisis and the last oil crash, Suncor had raised the payout. The current dividend provides a 2.9% yield.

The bottom line

High oil prices look set to continue for most of 2022 and possibly for several years beyond. If oil is destined to hold its current level through 2022, Suncor's share price appears heavily undervalued. If you have some cash to put to work, this stock deserves to be on your radar.

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