Why Suncor Energy Stock Surged 24% in October

Description

Throughout 2021, energy stocks have been rallying considerably. At the start of the year, this was only just a recovery. Oil prices were still below $50 a barrel, and many energy stocks were well off their pre-pandemic highs, including **Suncor Energy** (TSX:SU)(NYSE:SU).

With energy stocks being some of the last businesses to start their recovery, though, and a rapidly improving investing environment, as the vaccines had just been announced, energy stocks were some of the best companies to buy at the beginning of the year. In fact, Suncor was actually a top energy stock I'd recommended for investors back in February.

Since then and throughout the year, many energy stocks have seen significant rallies. And while Suncor has been recovering too, up until recently, it had been severely underperforming its peers.

The **TSX Capped Energy Index ETF**, for example, gained roughly 60% from the start of the year until October. Meanwhile, Suncor stock only gained 24%. And while a 24% gain is actually quite a bit for just nine months, it's also roughly the same return Suncor earned investors in October, which goes to show the momentum it has lately.

The industry has rebounded significantly this year

One of the reasons Suncor, as well as many other stocks, has seen renewed momentum lately is due to macroeconomic factors and the impact they're having on the energy industry.

As I mentioned above, oil prices have been rebounding all year. And it isn't just oil prices; demand has recovered, too. So, these stocks are producing more energy in addition to earning more money for each barrel.

And lately, with inflation picking up considerably, these prices haven't just recovered — they've soared. Oil prices are now the highest they've been since 2014. Furthermore, they are more than 30% higher than they were before the pandemic. This environment in the commodities market naturally leads to a rally in energy stocks.

Investors have a general idea of how much these energy stocks like Suncor are producing each day and what their costs are. So, as prices rise, we can predict greater profitability going forward, which leads to an increasing valuation.

With energy prices, along with many other commodity prices, soaring lately, many investors assumed that energy stocks like Suncor would see an increase in profitability. This is all just an estimate, of course, and can only be confirmed when we get the numbers at earnings.

Suncor stock's recent earnings were impressive

Suncor also reported earnings in October, which was another major contributor to its performance in the month. In fact, the stock was only up 6% in October before the company reported recorded operating earnings for the third quarter and doubled its dividend, bringing it back up to pre-pandemic levels.

The massive increase in profitability was a result of a more than 13% increase in oil production compared to a year ago as well as much higher oil prices. However, its refinery and marketing segment also played a significant role. Refinery throughput was 15% higher than the same quarter last year, as Suncor reported a 99% utilization rate vs. 87% last year.

This all led to a net income of $0.59 per share compared to a net loss of $0.01 in the same quarter last year. So, with the environment in the energy sector confirmed to be helping Suncor return to profitability, the stock is now an attractive investment.

Not to mention, it's still relatively cheap, trading at a forward enterprise value/EBITDA ratio of just 4.4 times. Furthermore, it has more than 17% upside to its consensus analyst target price and offers a current dividend yield of 5.1%.

So, if you're considering an investment in Suncor stock after its incredible third-quarter earnings report has confirmed that it's recovering well, I'd look to buy the stock soon, before it no longer offers this attractive discount.

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