



Suncor (TSX:SU) Stock: Should You Buy Now?

Description

Suncor ([TSX:SU](#))([NYSE:SU](#)) caught a bit of a tailwind after announcing its Q3 2021 results, but the stock has still lagged its peers this year, and investors are wondering if Suncor remains [undervalued](#).

Suncor Q3 2021 earnings

Suncor reported strong Q3 2021 results. The company generated \$2.6 billion in funds from operations and \$1.04 billion in operating profits.

The downstream refining and marketing businesses, which include four large refineries and roughly 1,500 Petro-Canada retail locations, delivered improved numbers supported by rising fuel demand, as airlines added more flights and people hit the highways for their summer trips. In fact, the group generated \$947 million in funds from operation in the quarter. This was the third-best Q3 on record from the refining and marketing operations.

Suncor Q4 2021 and 2022 outlook

Looking ahead, the removal of international flight restrictions coming into Canada and the United States should substantially increase demand for jet fuel in the coming months and through 2022. At the same time, corporations are expected to start moving employees back to the office for at least a few days per week in early 2022. That trend should continue to ramp up during next year.

Gasoline demand in Q3 2021 was already within 7% of 2019 levels. If people who historically used public transport to commute decide to drive instead, gasoline demand in Canada and the United States might hit record levels in 2022 and 2023.

That being said, high gas prices are expected to remain in place at least through the winter months and possibly right through next summer. The result might be that people leave their cars in the garage and opt for a staycation next summer.

Dividends

Suncor raised the dividend by 100% when it announced the Q3 results. The increase is welcome news for long-term investors who went into shock when Suncor slashed the payout by 55% in 2020.

With the dividend back to the 2019 level, investors hope another large increase will arrive before 2023.

The new quarterly distribution is \$0.42 per share. That provides an annualized yield of about 5.2% at the current share price of \$32.50.

Share buybacks

Suncor is using excess cash to repurchase shares. The company bought back 4.1% of the outstanding stock since February. The board increased the share buyback goal to as much as 7% of the float by the end of January 2022.

Debt reduction

High oil prices have enabled Suncor to reduce debt much faster than anticipated in 2021. Suncor lowered net debt by \$2 billion in the quarter and by \$3.1 billion year to date. The company now expects to be back to 2019 debt levels in Q4 and at its 2025 targeted net debt range by the end of this year.

That's good news for dividend investors, as it means more cash flow will be available for distributions.

Risks

Oil prices can be volatile. In its [November Oil Market Report](#), the International Energy Agency (IEA) says expects the price rally to ease in the coming months, supported by strong output growth in the United States, along with planned supply increases from OPEC.

This, along with a potential intervention by the U.S. government to lower oil and gasoline prices, could drive down oil prices even further in 2022.

WTI oil trades near US\$80 per barrel at the time of writing. A pullback to US\$70 wouldn't be a surprise in the early part of next year.

Should you buy Suncor stock now?

The stock traded for \$44 before the pandemic. Oil prices are much higher now than they were at that point. In addition, Suncor's balance sheet will be back to 2019 strength by the end of this year, and the company is generating a gusher of profits.

Oil prices will likely remain in the US\$70-\$80 range for most of 2022 and probably stay there for the next few years. As such, the stock appears undervalued right now, and investors are collecting a solid

dividend yield to wait for the share price to drift higher.

If you have some cash to put to work in a TFSA or RRSP portfolio, Suncor still looks attractive today.

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