Suncor (TSX:SU) Stock: Simply Too Cheap to Ignore?

Description

Suncor (TSX:SU)(NYSE:SU) continues to lag its large energy peers in the oil sector recovery. Investors with an eye for value are wondering if Suncor stock is now undervalued and a good buy heading into 2022.

Oil market outlook

WTI oil soared from US$36 per barrel in late October 2020 to US$85 near the end of the same month this year. Since then, the price has pulled back and currently trades near US$68.

Investors are trying to figure out if the dip is just a temporary pause before another surge to new multi-year highs or the start of another prolonged downturn.

A correction was expected after the massive rally. The recent decision by the U.S. government and a handful of other countries to release strategic reserves set the stage for the oil dip. A demand scare caused by the emergence of the omicron COVID-19 variant added to the selling pressure in the past two weeks.

OPEC+ says it plans to stick with its schedule of steadily adding new supply to the market as demand recovers from the 2020 crash. Pundits had expected the consortium to consider reducing or delaying the addition of new supply in the wake of the release of strategic reserve from the United States.

OPEC expects oil demand in 2022 to grow by 4.2 million barrels per day, although a number of factors, including the pandemic, could alter the forecast. Gasoline demand has recovered most of its losses already and overall oil demand is expected to return to pre-pandemic levels in 2022.

Beyond next year, the continued economic recovery could result in tight supplies over the medium term. Oil producers around the world slashed exploration and development expenditures by billions of dollars in 2020 and 2021. The result could mean the market will struggle to bring enough new supply online fast enough to keep up with the demand recovery.

In the event the Omicron variant turns out to be less dangerous than the Delta variant, airlines could see current new restrictions lifted in early 2022. At the same time, companies will probably start moving people back to offices in large numbers in the second half of next year. This could create a surge in gasoline demand as workers might choose to drive to the office rather than taking public transport due to ongoing COVID-19 fears.

Should you buy Suncor stock now?

Suncor reported strong Q3 2021 results, and the Q4 numbers should be solid as well. The company continues to make good money at the current oil price, and the downstream divisions, which include the refineries and gas stations, should extend their rebound next year.

Suncor raised the dividend by 100% when it announced the Q3 2021 results. Another increase could be on the way in the first half of 2022. Investors who buy the shares now can pick up a 5.4% dividend yield.

The stock trades for $31 per share at the time of writing compared to $44 before the pandemic. Several of Suncor's peers have already recovered or exceeded their pre-crash price levels. With fuel demand on the rebound, this stock appears cheap today and deserves to be on your radar.

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