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

**Description**

**Suncor** (TSX:SU)(NYSE:SU) raised its dividend by 100% when it reported its latest quarterly earnings. Dividend investors who avoided the shares after the board slashed the payout in 2020 are wondering if Suncor stock is now undervalued and a good buy.



## Suncor earnings rebound

Suncor generated $2.6 billion in funds from operations in Q3 2021 compared to $1.17 billion in the same period last year. Operating earnings came in at $1.04 billion versus an operating loss of $338 million in the same period last year.

Suncor reported net earnings of $877 million in the quarter compared to a $12 million loss in Q3 2020.

Higher oil prices drove up margins in the production business while a recovery in fuel demand resulted in the refining and retail businesses posting their third-highest Q3 results ever, with $947 million in funds from operations.

Refinery utilization was 99% in the quarter. Strong fuel demand through the summer months occurred, as people hit the road for vacations. Airlines also added new capacity, boosting demand for jet fuel.

Suncor used the cash flow windfall in 2021 to reduce net debt by $3.1 billion through the first nine months of the year. The company also repurchased 4.1% of its outstanding common stock.

## Outlook for 2022

Suncor said it will hit its 2025 net debt target by the end of 2021. That means more cash should be available for share buybacks and dividend increases in the coming year.

The company raised its share-buyback target to 7% of outstanding stock under the current share-repurchase program. Suncor also increased the dividend by 100% to a new quarterly payout of $0.42

per share. That brings the distribution back to the 2019 level.

Another dividend hike in the first half of 2022 wouldn’t be a surprise. The price of WTI oil has dropped from the 2021 high around US$85 per barrel to the current price around US$72, but this is still very profitable for Suncor.

## Risks?

The discovery of the Omicron COVID-19 variant has led to new travel restrictions and tighter controls to ensure passengers prove negative tests before boarding planes. This could slow down the recovery in the airline industry and impact demand for jet fuel.

The new variant, along with rising COVID cases in many countries, could also delay the return to offices until the spring or summer next near. This might impact the anticipated jump in gasoline demand.

In the event new extended lockdowns are required, the price of oil could drop quickly, and that would have a negative impact on Suncor’s share price.

## Should you buy Suncor stock now?



Despite some near-term uncertainty, Suncor looks cheap at the current share price of $31. The stock traded for $44 before the pandemic when oil was actually cheaper than it is today. Gasoline demand was within 7% of its 2019 level in Q3 2021, even with people still working from home. The strong results from the downstream operations suggest Suncor is back on track.

Investors who buy the stock today can pick up a 5.4% yield. At that level of return, you get paid well to wait for Suncor’s stock price to catch up with the rebound that has occurred across the energy sector.

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