This Cheap Stock Could Be a Great Bet in 2022

Description

Cheap energy stocks have had a great run this year. In 2021, the average oil and gas stock was up 70%, compared to the S&P/ TSX Composite Index 17.5% run over the same period. This trend could continue in 2022.

Here's why cheap stocks in the oil and gas sector are outperforming growth and tech stocks.

Value is back in fashion

So-called value stocks have been out of favour for years. Investors gave up on fundamental factors such as earnings growth and dividend yields in the pursuit of loss-making momentum stocks.

That changed this year. With the hype gone, several growth stocks have underperformed the market. Meanwhile, undervalued stocks in traditional industries like energy, retail, and banking have performed much better.

This trend seems like it could continue in 2022. Interest rates are rising, growth is slowing and demand for essential goods is higher than ever. Of course, energy is one of those essential goods. There's an ongoing energy crisis in much of Asia and Europe. Some experts believe this could spill over into North America over the course of the winter. Even if it doesn't, global oil prices are likely to remain elevated for much of next year.

With that in mind, here's a cheap stock in the energy sector that should be on your radar.

Cheap stock

Suncor Energy (TSX:SU)(NYSE:SU) is a top pick for value investors right now. Warren Buffett held onto Suncor until fairly recently. It was one of his biggest bets in Canada. That's what makes it worth a closer look.

Suncor is one of the best-performing stocks in the Canadian energy sector. The stock is up by more than 35% year to date. While it has pulled back by about 14% from an all-time high, its underlying fundamentals are stronger than ever.

The company delivered better-than-expected third-quarter results benefiting from a spike in oil prices to multi-year highs. Funds from operations more than doubled to $2.64 billion or $1.79 a share, up from $1.16 billion delivered the same quarter last year.

The company bounced back to profitability, with operating earnings landing at $1.04 billion, up from a $338 million loss. Its net income also came in at $877 million from a $12 million loss delivered the same quarter last year. Upstream production in the quarter increased to 698,600 barrels compared to 616,200 in Q3 of 2020.

Payout

Given the strength in its earnings, Suncor has hiked its dividend to $0.42 a share. The company's dividend yield currently stands at 5.6%.

In addition, Suncor Energy has increased its stock buyback program to 7% of the public float as part of an effort to return optimum value to shareholders. It has also committed to reducing its net debt at the highest annual pace ever.

This cheap stock is currently trading at 18.6 times earnings per share. This valuation is justified If oil prices remain stable at their current level throughout 2022. However, if the energy crisis persists and oil prices rise further, Suncor could be the ultimate outperformer next year.

Keep an eye on it.

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