



Could This Beaten-Down Value Stock Be Canada's Alibaba?

Description

Alibaba ([NYSE:BABA](#)) is possibly the most popular stock in the value investing community. Held by legends like Charlie Munger, Li Lu, and Mohnish Pabrai, it is incredibly well liked by a certain kind of investor. While it's not exactly popular with investors as a whole (it's been declining in price all year), value investors smell a bargain. Alibaba trades at just 12.7 times adjusted earnings, despite having 29% revenue growth in the most recent quarter. It looks pretty cheap.

And perhaps there is a [similar bargain to be found among Canadian stocks](#). While Canada's tech stocks are mostly pretty expensive, there is no shortage of value stocks to be found in Canada. If you're willing to look in beaten-down sectors like energy and mining, you can indeed find multiples as low as BABA's. With that in mind, here is one Canadian value stock that could be an Alibaba-tier bargain.

Suncor Energy

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is a Canadian energy stock with many classic value characteristics. It trades at just 19 times earnings, 1.35 times sales, 1.25 times book value and 4.5 times operating cash flow. It's super cheap. Its valuation metrics, in fact, are even lower than BABA's (apart from the P/E ratio), although its potential growth is not as high.

Alibaba grew revenue at 39% for the trailing 12-month period, and Suncor grew its revenue at 25%. Suncor's growth this year has been good, but not as strong as Alibaba's. Additionally, Suncor [depends on the price of a commodity](#) to make money. In 2020, when the COVID-19 pandemic sent oil prices to extreme lows, Suncor posted negative earnings four quarters in a row. So, Suncor is not exactly identical to Alibaba. But it has enough in common with it to merit the comparison.

Why it's similar to Alibaba

Suncor Energy stock is similar to Alibaba in many ways. As mentioned, it has similarly low multiples — even lower multiples, in fact. In addition to that, it's also popular with the same kinds of investors.

Warren Buffett, Charlie Munger's partner, has bought and sold Suncor several times. Other value investors are likewise holding it. Finally, Suncor, like Alibaba, has a strong position in its industry, with valuable assets and a strong sales pipeline.

How this could play out

As we've seen, Suncor Energy has many characteristics similar to Alibaba, a favourite stock among value investors. Depending on how things play out, it could prove to be a bargain.

But there's one fact that we have to contend with.

Alibaba still hasn't delivered positive gains for investors who bought it this year. It still has to prove that it can produce strong, growing earnings in the challenging post-2020 regulatory environment before it can rise. Likewise with Suncor. The company still has to prove that it can withstand the effects of the pandemic before it can start climbing. Naturally, that will depend on oil prices. But it also depends on the company's own efforts. We'll have to wait and see.

CATEGORY

1. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:SU (Suncor Energy Inc.)

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