



Suncor Energy (TSX:SU) Stock: A Dirt-Cheap Bargain

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock is on the rise in 2022. Up 9% for the year as of this writing, it is at its highest level since before the COVID-19 pandemic began.

In February of 2020, just before COVID-19 came on the scene, SU was trading for \$45. It fell 67% from that level before staging a recovery.

Today, we have the highest oil prices observed since 2018. As of this writing, WTI crude was just a stone's throw away from \$85. In this environment, Suncor Energy and other companies like it can really thrive.

Despite that fact, SU stock is still extremely cheap. Trading at 1.5 times sales and 1.4 times book value, the shares barely cost more than the value of the company's assets, net of debt. Not only that, but the company has great prospects for 2022. In light of this, SU stock looks like a solid value play right now — one worth adding to any dividend portfolio.

Why Suncor Energy got beaten down

To understand why Suncor Energy stock got beaten down so badly, we need to look at some recent history.

In March of 2020, COVID-19 hit North America in a big way, and oil prices began collapsing. At one point, the price of WTI crude in the futures market [went negative](#). Actual spot prices for things like gasoline remained positive, but people were paying much less at the pumps than ever before. This affected SU's earnings. As an integrated energy company, Suncor couldn't turn profits on the low oil prices observed at the time. Suncor needs at least \$45 oil to turn a profit, and prices were much lower than that for much of 2020. As a result, the company posted negative earnings four quarters in a row.

It was a rough period for Suncor. But in 2021, things started to turn around. In the second half of 2021, oil prices started climbing, and SU started [posting positive earnings](#) again. Its stock, naturally, followed suit. From its 2020 low to today's high, it rose 136%. That's a big gain, but if Suncor heads back to its

pre-pandemic prices, it may have more gains still yet to come. Right before the pandemic hit, SU was about 27% higher than it is now. Its *all-time* high (\$67) was about 83% higher. With oil prices getting tantalizingly close to \$100, Suncor may put out some of its best earnings in years. If that happens, then we could possibly see Suncor finally retake the highs it set over a decade ago.

Recent earnings

As an example of the success Suncor has been seeing lately, we can point to the company's most recent earnings release. In the third quarter, Suncor posted solid earnings across the board:

- \$2.6 billion in funds from operations (FFO), up 160%
- \$4.7 billion in cash from operations, up 291%
- \$1 billion in operating income, up from a \$338 million loss
- \$877 million in net income, up from a \$12 million loss

As you can see, the rise in oil prices was a big help to Suncor in the third quarter. In the comparable quarter of 2020, the company lost money, because oil prices weren't high enough for it to turn profits. This year, it was solidly profitable and posted absolutely enormous amounts of cash from operations. As long as the price of oil stays high, Suncor should be able to keep putting out strong results. That, along with its low multiples, makes Suncor look like a bargain.

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