Suncor: 1 Dirt-Cheap TSX Energy Stock to Watch

Description

West Texas Intermediate crude oil prices are continuing their ascent above the US$110 per barrel level, and all the while, TSX energy stocks are looking to catch up. Despite the run-up in oil, many top oil stocks have yet to fully factor in the impact of much prices for the commodity.

Whether or not oil can continue its run remains to be seen, but regardless, many top TSX energy stocks seem priced as though a sharp pullback is almost an inevitability. Perhaps energy investors are staying prudent, given oil prices plunged into negative territory just under two years ago! It seemed like such a long time ago when everybody was rushing to get out of the top oil sands plays.

These days, investors are bidding up the top TSX energy stocks in a cautiously optimistic manner. Indeed, top integrated energy plays like **Suncor Energy** (TSX:SU)(NYSE:SU) are trading at a ridiculously low 14.1 times trailing earnings at writing. The 4.3% dividend yield is bountiful, and the payout is likely to grow as long as oil prices don't collapse violently.

The oil boom has made many TSX energy stocks cheaper over the past few weeks

Given recent supply-demand imbalances, I'd argue that higher oil could persist for longer than many skeptics are expecting. If they do, stocks like Suncor could prove severely undervalued at just under $40 per share. Indeed, the dividend cut is still fresh in the minds of investors. As the company finally starts to feel the winds truly at its back, though, I think the name should appeal to the value and momentum crowds.

Still off around 29% from its five-year high of $55 and change per share, Suncor Energy stock is slowly, but steadily creeping back toward its pre-pandemic high.

Indeed, the war in Ukraine was a shock to many investors, as too was the spike in oil prices. With the Russian stock market down well over 85% from its high over numerous punitive sanctions, a major oil player has been taken off the map. Could that mean US$120 per barrel WTI is the new norm? It's impossible to tell. Regardless, I view dirt-cheap TSX energy stocks like Suncor as having such a wide margin of safety that they won't be in any trouble unless oil were to plunge below US$55 per barrel, which is a far cry from here.

Suncor Energy: too cheap, given where oil is at

Suncor Energy is arguably one of the cheapest TSX energy stocks out there today. Up 18% year to date, SU stock has effectively shrugged off concerns facing the broader stock markets. The relative outperformance is nice, but the stock still seems incredibly undervalued given where oil is today.

At 1.4 times sales and 1.6 times book value, it doesn't seem like Suncor is living in a world with US$110 per barrel of oil. Indeed, the valuation makes no sense if oil is to stay elevated. As shares continue surging, expect the multiple to stay in the low-to-mid teens. That's the type of earnings multiple compression we may be dealing with, as the well-run integrated finally has a chance to fire on all cylinders. With one of the best balance sheets out there, Suncor seems like a top pick for Canadians keen on gaining exposure to commodities without having to pay up for it.

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