1 Severely Undervalued TSX Stock in the Red-Hot Energy Patch

Description

Despite being cheaper than your average U.S. stock, TSX stocks have not been spared from the big bumps in the road. With the Bank of Canada ready to raise the bar on interest rates gradually through the year, the economy could pull the brakes. It's never easy to see the punch bowl be taken away. The days of easy money are coming to an end. And with that, investors need to get more selective about the types of securities they're willing to buy and the prices they're willing to buy them at.

The growth trade has reversed violently. And it could take many more months for them to see the light of day again. Instead of speculating on growth companies that don't expect to make a profit anytime in the near future, it makes more sense to look to the old-fashioned value names that may sport valuation multiples that are on the lower end of the historical range.

Undoubtedly, many firms won't earn nearly as much in the coming 12 months if we are going to fall into an economic downturn. As a result, some depressed stocks may deserve to be down and out. However, some of the more resilient firms may be unfairly discounted, given the current trajectory of the macro environment.

Hedging your bets with commodities?

Indeed, energy stocks have been on quite a run lately. Yet many of them are still discounted on a price-to-earnings basis. Why? It seems as though many don't expect the good times to last in the oil patch. Could it be that oil could suffer a blow-off top? Perhaps, but there's also a chance that Russia's invasion of Ukraine could intensify, keeping energy prices elevated.

It's hard to predict where oil is headed next. If worse comes to worst, oil prices could stay elevated. And arguably, higher oil is a net negative for investors, given its impact on inflation and input costs. Given the risks of a "higher-for-longer" oil price environment, I'd argue that it's only prudent to have some energy exposure, especially while many others doubt the sustainability of oil's rally.

Suncor Energy (TSX:SU)(NYSE:SU) is a great fossil fuel stock that seems too cheap for its owngood. If we do slip into recession, such a resilient energy stock is more than capable of holding its own.

Suncor Energy

Suncor is one of the best-known Canadian integrated oil plays. The company was criticized by an activist investor who's built up a sizeable stake. Undoubtedly, Suncor has enviable assets, and if oil does stay elevated, there's not much preventing the stock's multiple from contracting lower, even as shares rally higher.

The industry tailwinds and low multiple alone make Suncor stock a great buy. With activists that could push for long-lasting positive change at the company, I view shares are being beyond undervalued at 11.3 times trailing earnings. Indeed, it seems as though a small pullback in WTI prices is partially baked in. If activists can push for the changes they want, I'd be unsurprised if SU stock is bid-up meaningfully higher on the news.

The bottom line

Activist involvement at Suncor may be a cause for concern for some. However, given Suncor's mixed track record, it has room to improve itself amid industry windfalls. I think investor activism can unlock value in Suncor. The company may need the extra nudge to regain the crown of Canada's largest energy stock.

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Date
2025/08/20
Date Created
2022/05/23
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