



Suncor Energy (TSX:SU) Stock Looks Like a Smart Buy on the Dip

Description

Beginner investors are probably doubting this week's relief rally. With the S&P 500 still down just north of 20%, while the Nasdaq is down around 30%, questions linger as to what Mr. Market's next move will be, as the Federal Reserve gets serious about rate hikes, even if it means inflicting damage to economic growth employment. Indeed, there are so many tools one can use in the fight against inflation. Though inflation is showing no signs of backing off here in Canada or south of the border, the recent cooling in the price of oil and gas is encouraging.

Many top Canadian oil and gas stocks have spilled over, with some falling more than 20% (that's a bear market). Whether or not this is the beginning of the end of the big oil surge remains to be seen. Regardless, there is a Ukraine-Russia premium on the price of oil — one that's unlikely to go away until Russian sanctions are removed (an unlikely scenario).

In this piece, we'll look closely at one intriguing Canadian energy stock that could be ready to take off as we head into the summer months.

Suncor Energy stock: Back in a bear market

With the oil technicals falling apart, shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) has been quick to surrender gains over the past two weeks. Over the past week, the stock has plunged around 10%, putting it in bear market territory. Pending a collapse in oil below the US\$90-95-per-barrel mark, the stock looks incredibly undervalued at just 9.9 times trailing earnings, with its 4.4% dividend yield.

Suncor has a lot of work to do, as it looks to regain the crown in the Canadian oil patch. The firm is looking to trim away at its debt load, while continuing to invest in operations. Indeed, short-sellers shined a light on inefficiencies that the firm could improve upon. In due time, I think they will take the right steps to improve upon longer-term fundamentals. That alone should help Suncor as oil prices begin to slip further.

Oil's spill below US\$105 is nothing to fear

With another quarter coming up, investors could be in for a nice surprise. The company continues to benefit from the high oil price windfall, which could last into year's end. With that, Suncor could have a lot more cash to line the pockets of shareholders.

Moving ahead, investors should expect share buybacks and generous dividend hikes. Suncor's cash cow days may very well be getting started. If that's the case, investors should take a page out of Warren Buffett's playbook by buying energy plays in the second half of the year, if not for a solid risk/reward scenario, to hedge against worsening inflation.

The Foolish bottom line for Canadian investors

Oil prices won't stay on this incredible run forever. Eventually, it will run out of steam, and many producers will see their tides being lowered.

At this juncture, the Ukraine-Russia crisis doesn't appear to be improving, and producers aren't inclined to send production through the roof in response to the oil boom. That should keep [energy](#) prices well above US\$80 per barrel through 2023. In such a scenario, today's waning oil stocks are terrific buys.

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