



Suncor: The Former Buffett Favourite Is Still Cheap!

Description

Years ago, Warren Buffett was a big fan of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock. He began accumulating a position in 2018 and kept adding to it all the way through the 2020 bear market. Eventually, he gave up on the stock, selling out of all his shares at a loss. However, if he had held to today, he would have realized a gain.

Suncor Energy is currently more than double its prices at the lows in 2020. Its business has recovered from the four-quarter losing streak it booked that year and is now back to making gains. The rise in oil prices has been kind to Suncor Energy this year. Incredibly, the stock is still cheap when viewed from a fundamental perspective.

Recent earnings

In its most recent quarter, Suncor delivered phenomenal results, which included the following:

- \$4 billion in cash from operations, up nearly 100%
- \$2.9 billion in net income, up 269%
- \$728 million in net debt reduction

It was a great showing. Not only did earnings increase, but the company retired some debt as well, which will pave the way for more earnings growth in the future. Suncor's second quarter still hasn't been reported, but oil prices were similarly high in that quarter. So, there is reason for optimism regarding Suncor's future performance.

Dirt-cheap multiples

After looking at all of Suncor Energy's growth, you might think that its stock would be expensive. Superior growth and profitability command a premium in the markets, and Suncor has got both of those qualities in spades. Amazingly, though, its stock is not expensive at all. In fact, it is [arguably undervalued](#). As of this writing, it traded at

- 11.3 times earnings;
- 1.46 times sales;
- 1.6 times book value; and
- 4.9 times operating cash flow.

These are all rock-bottom multiples, suggesting that SU stock has room to run just from multiple expansion alone.

A growing business

It's one thing to note that Suncor Energy is cheap but quite another to establish that it has growth potential. Sure, the last quarter's high oil prices gave SU an easy win, but will it be so lucky in the future?

There is reason to think that, at least in the near term, SU could continue to grow. The higher the price of oil goes, the more revenue Suncor collects. The price of oil is very high this year. The U.S. government is trying to offset the rising prices by releasing a million barrels of oil per day from the [Strategic Petroleum reserve](#) (SPR) but is seeing mixed results.

Oil prices are currently down from the year's highs but only by 10%. Also, the SPR release can only last so long. Eventually, either the release will end or the Reserve will run out. When one of those two outcomes materializes, prices could rise, especially when we consider that OPEC is out of spare capacity.

Earnings coming soon

Whatever happens to Suncor in the long term, we'll know how the company fared in the second quarter pretty soon. The second-quarter release is scheduled for August 4. On that date, we will get a good, hard look at SU's performance in the quarter, including revenue, earnings, and output levels. A lot is about to be revealed, so stay tuned.

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