Here's a Dirt-Cheap Cash Cow to Buy Right Now

Description

In terms of portfolio diversifiers for rocky markets, like the one we're in currently, the commodities are more than worth looking into. Energy stocks in particular strike me as intriguing plays that not only can power through the next recession (and market correction) but the recent barrage of inflation.

Inflation is a beast that hurts all of our wallets. But with impressive cash flows and a rock-bottom price of admission, I'd argue some of the beaten-down energy names simply do not get enough respect following their latest plunges.

Enter Suncor Energy stock: A cash cow of a bargain

Consider shares of **Suncor Energy** (TSX:SU)(NYSE:SU), which has already endured a painful 27% slide from peak to trough. At writing, Suncor shares are at $44.73 per share, down just north of 16% from its peak just north of $50, but still up a great deal (over 87%) over the past year.

While a recession could drag oil prices and energy producers much lower, I think the recent selloff in anticipation of economic sluggishness is overblown. WTI (West Texas Intermediate) prices may be in a bear market off their peak levels (around US$120 per barrel). However, oil is still a heck of a lot higher than it was prior to the pandemic. The Ukraine-Russia crisis and other factors could keep oil elevated for years to come. That's a likely reason why Warren Buffett — one of the greatest investors of our generation — has been betting big on the energy sector.

Though Buffett has been in Suncor Energy stock before, they've since moved on to more conventional producers. At the end of the day, Canadian energy trades at a discount, and there are hurdles (transportation, differences in refining, and emission concerns) that warrant a relative discount in Canadian crude. Over time, though, I expect the discount to shrink. And it's already discounted Canadian oil kingpins like Suncor that could have the most room to the upside.

Dirt-cheap value in the oil sands

At 6.8 times trailing price-to-earnings (P/E), Suncor trades at a sizeable discount to many of its American (and Canadian) peers. The industry average P/E is flirting with 12. That's a 76% higher multiple than that commanded by Suncor. So, why the heavy discount on the heavy crude kingpin?

Suncor has its work cut out for it. In prior pieces, I've noted that management changes are a source of uncertainty for investors in an already highly uncertain market. Specifically, activist investors (Elliot Investment Management) want to see Suncor improve upon its safety track record without hurting its operational efficiencies.

With smart new managers at the helm, I'd look for Suncor to not only enhance its safety protocols without hurting operations but improve upon efficiencies. It won't be an easy task, but with activists keeping a close eye on the firm, I think there's ample hidden value to be unlocked over the next few years at the idiosyncratic level.

Who says you can't have your cake and eat it, too? Good safety and sound fundamentals are not mutually exclusive!

In the meantime, Suncor will continue to benefit from WTI at around US$90 per barrel.

Bottom line

Pending an unlikely collapse in oil towards 2020 levels, Suncor's one of the best bargains in the oil patch, regardless of what the Fed says or how many rate hikes will be in store over the next 18 months. At four times price-to-cash flow, investors aren't paying a lot for swelling cash flows. Over time, investors should expect such cash to be rewarded in the form of buybacks and generous dividend hikes.

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