



Suncor Energy Stock: Should You Buy the Dip?

Description

Suncor Energy ([TSX:SU](#)) stock has been in a downtrend in recent weeks. Since reaching a high of \$49.19 a couple of weeks ago, it has fallen to \$46.20 — a 6.08% decline.

Suncor Energy's selloff has coincided with a major dip in the price of oil. Just a few days ago, crude oil futures fell to US\$74, erasing all of the gains for the year. In light of the pronounced decline in the price of oil, it's a little surprising that SU hasn't fallen more, given that it makes its money by selling oil and gasoline.

Should you buy the dip in Suncor Energy stock? Certainly, SU is cheaper than it has been in the past, but current oil prices are likely to cause the stock's earnings to decline. If that happens, then it will not look as cheap in a few months as it does now. It's a complicated topic; in this article, I'll try to provide some clarity.

Why Suncor Energy stock dipped

The main reason why Suncor Energy stock dipped in the last few weeks is because oil prices dipped even more. In the last month, oil prices fell 10.5%. Given this steep decline, it's perhaps surprising that Suncor stock hasn't fallen more than it has. Certainly, many people think so.

I'm of the opinion that oil stocks are a fairly decent value with oil prices falling as low as \$70, but many people on **Twitter's** "#Fintwit" community seem to disagree. Noting that [oil prices are down](#) while oil stocks are still up for the year, they believe that oil stocks are due for a correction.

Could the oil party really be over this time?

It may or may not be the case that [oil stocks](#) as a whole should decline in price now, with oil prices having fallen considerably. However, Suncor Energy is undeniably cheap. Going by its last 12-month earnings results, Suncor trades at

- 6.3 times earnings;
- 1.26 times sales;
- 4.5 times cash flow (a pure cash earnings metric); and
- 1.75 times book value (i.e., assets minus liabilities).

If Suncor's earnings were cut in half, and if its stock price didn't change, it would still only be trading at about 12.6 times earnings. The stock is so outrageously cheap that it can handle lower oil prices. I can't say exactly at what oil price it stops being worth it, but given that oil has been falling for almost half a year now and that the stock still has a single-digit price-to-earnings ratio, I'd say Suncor could be worth it with West Texas Intermediate crude oil at \$70, maybe lower.

Foolish takeaway

Should you buy the dip in Suncor Energy stock?

Ultimately, it depends on what your preferences are. Oil stocks have the potential to deliver high dividends, and unlike certain other high dividend sectors, they sometimes deliver exciting capital gains. I participated in the oil trade profitably earlier this year. Today, I am much more interested in banking stocks. Nevertheless, you can probably do well with oil stocks over the long term. Just know that the low-hanging fruit has been picked.

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