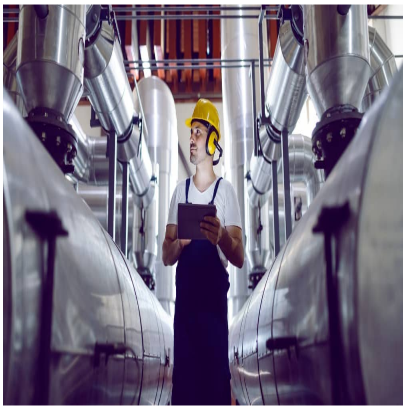

Suncor Stock Fell 7.4% in November: Is it a Buy Today?

Description

Energy stocks have had an interesting journey this year. A global supply shortage was accentuated by Russia's invasion of Ukraine. That's created a windfall for Canadian oil and gas producers.

Suncor (TSX:SU), one of the largest oil companies in the country, has benefited from higher energy prices. However, the oil stock has lagged behind the rest of the energy sector. It's down 7.4% in November. Is this oil giant a buy today?

Oil price

Energy stocks are heavily correlated with crude oil and natural gas prices. Most energy stocks have surged this year, as the price of West Texas Intermediate (WTI) skyrocketed from US$76 to US$122 in the first half of 2022. Since then, the price has gradually declined to US$79.9.

Last week, member countries of the G7 and European Union bloc of nations agreed to a price cap on Russian crude. The cap is set at US$60 and goes into effect this year. If successful, this strategy could drag the price of crude lower.

However, analysts believe most Canadian energy producers are profitable, even if the underlying commodity is cheaper. Suncor could produce a free cash flow yield of up to 13% if the price of WTI hits US$70, according to an analysis by Eric Nuttall. That's a better yield than most of the stock market.

Suncor stock valuation

Suncor stock is arguably undervalued. But so is the rest of the industry. Suncor trades at a price-to-earnings (P/E) ratio of 7.8 and a price-to-free cash flow ratio of 6.4. It has managed to significantly reduce debt and boost dividend payouts this year. The dividend yield is 4.8%.

It's an attractive target for investors seeking value. However, the rest of the oil sector looks more appealing. Other large-cap oil producers offer dividend yields of 6-8%. Meanwhile, smaller energy producers are trading at lower valuations. **Baytex Energy**, for instance, trades at a P/E ratio of just 3.6.

Suncor has also been reluctant to undertake strategic changes that would unlock shareholder value. Last week, the company decided to retain its retail energy business because it couldn't find a buyer with the right offer. A successful sale of this unit would have unlocked between $3.8 billion to $5.7 billion of cash for shareholders.

Put simply, Suncor isn't the most attractive target in the energy sector. Investors have better alternatives.

Bottom line

The steady decline in oil prices has put pressure on Suncor stock. The stock is undervalued, even if oil prices drift lower in the months ahead. However, the rest of the energy sector is much more attractive. Investors can find better value and higher dividend yields elsewhere. That's why Suncor isn't an appealing purchase right now.

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