The 1 Canadian Energy Stock I'd Buy, Even if Oil Prices Stay Low

Description

In the second half of 2023, oil prices have fallen quite a bit. Currently, West Texas Intermediate crude oil is down about 38% from its 52-week high ($123), and some think it could fall further. Remarkably, oil stocks have largely held on to their gains, despite oil falling to the level it was at at the start of the year. That could have something to do with the way oil companies managed their money this year: most of them chose to repay large amounts of debt, which will lead to higher profits in the future. Still, the earnings levels seen in the first and second quarters are unlikely to recur anytime soon.

That doesn't mean that oil stocks are bad buys. Some of them have gotten pretty expensive, but many haven't.

In this article, I will explore one oil stock that I would buy, even if oil prices remained low.

Suncor Energy

Suncor Energy (TSX:SU) is one of Canada's biggest oil companies. Valued at $55 billion, it does over $4 billion per quarter in revenue in most quarters. Suncor Energy stock has been very profitable this year. In its most recent quarter, it delivered the following:

- $15 billion in revenue, up 47%
- $2.65 billion in operating earnings, up 150%
- $4.4 billion in funds from operations, up nearly 100%

It was a pretty decent showing, all things considered. Net income was technically negative, but that was only due to a one-time impairment charge. An impairment charge is when an asset is found by accountants to not be worth what the company paid for it, and is written down. This does affect the quality of a company's balance sheet, but is purely a non-cash item, so it doesn't affect its dividend-paying ability.

Suncor’s dividend

Speaking of Suncor’s dividend, let’s take a look at it.

As of December 2022, Suncor paid a dividend of $0.52 per quarter. That worked out to $2.08 per year. At today’s stock price (approximately $40), that gives us a 5.2% yield. That’s not bad. If you invest $10,000 at a 5.2% yield, you’d get $520 back in dividends each year. That might not sound like a whole lot, but it could grow over time.

Suncor Energy has only a 0.32 payout ratio, which means that it pays out only 32% of its profit as dividends. There’s plenty of room for the company to raise its dividend if earnings don’t rise, and if earnings do rise, then the dividend is almost certainly going up.

Valuation

Last but not least, we have Suncor’s valuation. In my opinion, this is the most interesting thing about the stock. At today’s prices, SU trades at the following:

- 7.7 times earnings
- 1.07 times sales
- 1.49 times book value
- Four times operating cash flow (a pure cash earnings metric)

This stock looks super cheap. If oil prices fell, and Suncor’s P/E ratio increased to 10, it would still be cheap. Overall, I’d be comfortable owning this stock with oil prices as low as $60. It’s going to be long-term profitable with oil prices above its break-even level, which some say is just $30!

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Date
2025/08/12
Date Created
2022/12/25
Author
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