



The Iran and U.S. Deal Could Hurt Oil Prices—Suncor Energy Inc. Is Your Safe Zone

Description

The United States and Iran appear to have a deal about what to do about all that uranium Iran has. Iran has been suffering from the sanctions put on them by the European Union for a long time, so not much oil has left the country. However, part of this deal, should it actually pass, will include an easing of those sanctions. And when they finally lift, Iran is going to start selling oil because it has no choice.

You think the price of oil is painful right now? Just wait until a country that some analysts predict is as flush with oil as Saudi Arabia starts to sell oil. Consider this...since the sanctions went into place, the amount of oil coming out of Iran has dropped by over one million barrels a day. At present, there are two million more barrels of oil in the global market than is currently needed.

What will another one million barrels do the price?

Fortunately, this doom and gloom that many investors are thinking about isn't going to become a problem for some time. The agreement is still tentative and the uranium needs to be analyzed by third parties, and only then could the sanctions start to lift. We're looking at anywhere from six months to a year before Iranian oil starts to hit the market.

So, the question we have to ask ourselves is whether or not the price of oil will increase before that happens, or if it will stay depressed for a year. If it stays depressed for a year, oil prices will fall even more when Iran starts selling its oil again.

What should you do?

I would avoid the oil market outright. There's really no telling what's going to happen. There's still too much oil and a lot of the oil companies are suffering because of how long prices have stayed so low. However, if you absolutely must own an oil company, my suggestion is you to buy **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)).

It's a well-diversified company that generates good cash flow even when times are rough. A big reason for that is because the CEO never expected the price of oil to stay at US\$100 for a long time, so his

strategy was to be prepared for leaner times. And it continues to get leaner, with plans to cut another \$400-800 million in the operating budget throughout the rest of the year.

Suncor is also the company that Warren Buffett has decided to put his money in. It is the largest oil holding that he owns, which says a lot about the company. When other companies are suffering, Suncor continues to ride the waves.

Finally, Suncor pays a 2.9% dividend, which shouldn't be negatively impacted since the company is operating so lean. Being paid even when oil prices are down is a sign of a good, solid company.

The moral here, at least in my opinion, is that you shouldn't be buying new oil stocks until we know where the price is going. But if you absolutely need to own one, I would put my money in Suncor. It's the safest of the companies and it is operating as if the price of oil will stay depressed for some time.

CATEGORY

1. Energy Stocks
2. Investing

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