



Suncor Energy Inc.: Time to Buy the Pullback?

Description

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is down 10% in the past month, and investors who have been waiting for an opportunity to pick up the stock are wondering if this is the right moment to buy.

Let's take a look at the current situation to see if Canada's largest integrated oil company deserves to be in your portfolio.

Oil outlook

Oil traders are trying to decide if OPEC efforts to reduce global supply can offset rising production in the United States.

Last year, OPEC and a handful of other producers, including Russia, agreed to cut production by 1.8 million barrels per day through June 2017.

The market initially cheered the news, driving WTI oil above US\$55 per barrel.

Oil held above the US\$50 mark for the first part of this year, but doubts started to arise about the ability of some members of the group to hit their targets.

Russia has committed to reduce production by 300,000 barrels per day, but its efforts stalled out in February. The country says it is now back on track.

OPEC says its compliance has been good, although many analysts question the numbers released by the group, and there is a concern Saudi Arabia is shouldering the burden for some of the other members who are not reaching their commitments.

The group recently extended the pact through the first quarter of next year. In the past, this kind of announcement was sufficient to put a floor under falling oil prices, but WTI has continued to slide in the wake of the deal.

Why?

U.S. production is up 10% in the past year, and OPEC members who are exempt from the pact, such as Libya and Nigeria, are boosting production.

In addition, a recent report from the U.S. government's Energy Information Administration predicts oil-supply growth in 2018 will outweigh the expected increase in demand.

Should you buy Suncor?

Suncor is primarily known as an oil sands producer, but it also owns four refineries as well as more than 1,500 Petro-Canada retail locations. The diversified nature of the revenue stream provides a nice hedge when oil prices are falling.

That's why Suncor's stock has held up so well compared to the pure-play producers.

The company boasts a strong balance sheet and has taken advantage of the oil rout to add new assets at very attractive prices. If oil is destined to recover, Suncor's shareholders are going to reap some nice rewards.

Suncor is also one of the few oil companies that has managed to increase its dividend through the downturn, and the distribution should be safe.

So, everything depends on your view of oil in both the near term and in the coming decades. Some pundits say low prices are here to stay and oil's glory days are over. Others predict a price surge back to US\$70 in the next 12 months and shortages in the coming years.

If you think oil could be headed back to US\$30 per barrel and will remain under pressure for some time, it would be best to search for other opportunities.

Investors who believe WTI's downside from the current price of US\$45 is limited might want to start nibbling and collect a 3.25% yield while they wait for better days.

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