Should Suncor Energy Inc. Be in Your Portfolio Today?

Description

Investors are looking at the troubled energy sector and wondering which names might be attractive contrarian additions to their portfolios.

Let's take a look at **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) to see if it deserves to be on your buy list.

Oil market

The price of WTI oil has dropped from US$55 per barrel at the beginning of 2017 to below US$43 last month.

Since then, crude prices have staged a modest recovery back to US$47, but the market remains somewhat volatile.

What's going on?

Oil traders are trying to decide if OPEC's efforts to reduce supplies will eventually succeed in bringing the market back into balance and push prices higher.

The group, along with a handful of other countries, including Russia, agreed last November to reduce output by 1.8 million barrels per day through June 2017. The pact was then extended to run through the first quarter of next year.

Oil prices rose on the initial announcement, but concerns about compliance began to creep into the market in March, and oil has trended lower with a few knee-jerk rebounds along the way.

Saudi Arabia says it is committed to balancing the market, but rising production from OPEC members Nigeria and Libya, which are exempt from the pact, is hindering progress.

In addition, U.S. production is at highs not seen since July 2015.

As a result, investors should probably expect limited gains in the price of oil until there is clear evidence OPEC's efforts are finally having a meaningful impact.

Is Suncor attractive?

Suncor has navigated the oil rout in much better shape than many of its peers. This is primarily due to the company's integrated business model.

Suncor is best known as an oil sands producer, but the company also owns refineries and more than 1,500 Petro-Canada retail outlets.

Management has taken advantage of the downturn to add strategic assets to fuel future growth, including the acquisition of Canadian Oil Sands, which gave Suncor a majority stake in Syncrude.

Suncor has also done a good job of reducing costs. The company's cash operating costs for the first quarter of 2017 came in at $22.55 per barrel, which is a 20% improvement over the past two years.

The balance sheet remains in good shape, and the dividend should be safe. At the time of writing, the distribution provides a yield of 3.3%.

Should you buy?

Investors have to be bulls on the oil sector to buy any producers today.

If you are in that camp, Suncor is worth considering for your portfolio. The stock will benefit when oil prices rise, and the company is unlikely to go bust if the difficult market conditions continue in the near term.

However, if you think WTI oil will fall below US$40 in the coming months and remain under pressure for several years, it would be best to look for other options.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/08/24
Date Created
2017/07/28
Author
aswalker