Suncor Energy Inc.: Is This Canadian Oil Stock Attractive Today?

Description

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is trading at a multi-year high, and investors are wondering if more upside is on the way.

Let's take a look at the current situation to see if Suncor deserves to be on your buy list right now.

Oil rally

WTI oil recently hit a three-year high above US$68 per barrel. The recovery off the June 2017 low of US$42 appears to be intact, and investors are finally starting to shift some money back into the sector.

A number of things are in play that might point to a continued rally in oil prices. First, the global economy is improving, and that bodes well for oil demand. Second, geopolitical risks continue to keep oil traders on the edge of their seats. For example, wars in Syria and Yemen are increasing tensions among major producers, including Saudi Arabia, Russia, and Iran.

Finally, efforts by OPEC to reduce global supply could be having an impact.

Add to that the fear surrounding a China-U.S. trade war, and you have a situation that is relatively supportive of higher oil prices.

Investors, however, should be careful chasing the surge. Geopolitical risk tends to be short term in nature, and while media coverage can fan the flames of investor concern, market sentiment often switches on a dime, especially when U.S. production results come out stronger than expected.

Now that WTI is comfortably above US$65 per barrel, which is supportive of new drilling in the United States, U.S. producers are expected to drive the country's record production levels even higher.

What about Suncor?

Suncor is breaking through multi-year highs, while many of its peers continue to see their stock prices languish near multi-year lows.

What’s going on?

Suncor’s secret lies in the integrated nature of its businesses. The energy giant is primarily known as an oil sands producer, but Suncor also owns large refineries and more than 1,500 Petro-Canada retail stations. The downstream assets provide a nice hedge against tough times in the production operations and are a big reason the stock held up so well during the rout.

Growth

Management took advantage of the downturn to add strategic assets at attractive prices, including the takeover of Canadian Oil Sands, which gave Suncor a majority interest in Syncrude. In addition, Suncor pushed ahead with major developments during the crash, and those decisions are bearing fruit. Fort Hills and Hebron both went into production in late 2017 and are ramping up output just as oil appears to be in recovery mode.

Dividends

Suncor raised its 2018 dividend by 12.5%, supported by rising oil prices, increased output, and lower oil sands operating costs. With Fort Hills and Hebron now complete, cash flow available for distributions should increase.

Should you buy?

Suncor’s struggling peers might offer more upside torque on a continued recovery in oil prices, but they also carry significant risk if the rally runs out of steam or reverses sharply. If you like oil long term but want a safe pick in the sector with a secure dividend, Suncor looks attractive today, even at the new multi-year high.

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
2025/08/26
Date Created
2018/04/18
Author
aswalker