



Suncor Energy Inc. (TSX:SU): Is This Oil Stock Oversold Right Now?

Description

Oil is up 50% since late December, yet the stock prices of many top producers have not kept pace, potentially giving investors an opportunity to pick up shares at a discount before the big money rushes back to the sector.

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

Value

WTI oil currently sells for US\$64 per barrel compared to the US\$42 it fetched near the end of last year. Suncor bottomed out around \$35.50 per share at that time and is now back up to \$44. That's a nice pop, but more upside should be on the way.

The company completed the Fort Hills and Hebron projects in late 2017 and spent most of 2018 ramping up production at the sites. The transition from development to production appears to have occurred, as the oil market is in a recovery phase and the impact on capital requirements should ensure that more cash flow is available for distribution to shareholders through dividend hikes and stock buybacks.

In fact, investors are already seeing the positive results. Suncor raised the dividend by nearly 17% for 2019 and intends to repurchase \$3 billion in stock. The existing dividend provides a [yield](#) of 3.2%.

Additional growth projects include drilling at the offshore sites of Hebron, Hibernia, White Rose, and Buzzard. Suncor is also making development progress at the Norwegian Oda and Fenja projects. The attraction of offshore production is that it fetches global oil pricing.

On the acquisition side, Suncor used its war chest of cash to buy strategic assets at attractive prices in recent years, including the takeover of Canadian oil sands. It also purchased larger stakes in some of the joint partnerships. The additional resources boost current production as well as future growth potential.

Investors should see management leverage the strong balance sheet to take advantage of additional opportunities in the coming years.

Integrated businesses

Suncor is best known for its production assets, but the company also owns large refineries and operates a network of more than 1,500 Petro-Canada retail locations. The downstream assets provide a hedge against lower oil prices and help mitigate the effects of volatile moves in the oil market, as we saw during Q4 2018.

Pipeline access

Suncor is able to get WTI or Brent pricing for most of its production due to favourable access to existing pipelines and the nature of its businesses. Bottlenecks persist in Canada, but that should eventually get sorted out. Better access to global markets for Alberta production will help the entire sector, including Suncor, and could bring a flood of new investor interest in the coming years.

Should you buy?

Suncor traded for \$55 per share last summer, so there should be solid upside on the way as oil extends its rebound. If you have a buy-and-hold investing strategy, Suncor appears attractively priced today.

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