WTI Oil at US$60: Time to Buy Suncor Energy (TSX:SU) Stock?

Description

The price of West Texas Intermediate (WTI) oil has picked up a tailwind in recent weeks, and investors are wondering which Canadian oil stocks might be the best buys to benefit from further gains.

Smaller companies with heavy debt loads carry the most risk while also offering better potential upside on a strong rally. For investors who prefer a safer approach, the larger players in the industry could be more attractive today.

Let’s take a look at **Suncor Energy** (TSX:SU)(NYSE:SU) to see if it deserves to be in your portfolio.

Diversified revenue

Suncor is somewhat unique in the Canadian energy sector due to its integrated business structure. The oil production assets generate the largest revenue stream, and falling prices will squeeze margins in this segment. However, Suncor also operates four large refineries and about 1,500 Petro-Canada retail locations.

The downstream businesses provide Suncor with a good hedge when oil prices fall, as they can benefit from the lower input costs. For example, the refineries produce gasoline, diesel fuel, jet fuel, and asphalt that can be sold at attractive profits when oil prices dip.

In addition, low oil prices eventually lead to lower gasoline prices, and that can encourage a rise in visits to service stations as people decide to embark on more and longer trips.

Market access

Suncor has another edge over some of its peers in that it is able to get WTI or Brent pricing for most of its production due to favourable access to existing pipelines that can carry its product to the United States.

As production increases, new transportation is required. Assuming Trans Mountain and Keystone XL eventually get built, investors could start to flow back into the energy sector, and Suncor should benefit.

Balance sheet

High debt levels have resulted in some Canadian oil producers losing 90% of their market value in the past five years. Suncor is in the enviable position that its balance sheet and access to capital are very strong. This enabled the company to make strategic acquisitions during the downturn, adding significant resources and new production at attractive prices.

The strong financial position also helped Suncor push through with two major developments during the oil rout. Fort Hills and Hebron are now in operation and ramping up production.

Dividends and share buybacks

Suncor does a good job of sharing profits with investors. The board raised the quarterly dividend from $0.36 to $0.42 per share for 2019 and is spending up to $2 billion on share repurchases. Investors who buy today can pick up a yield of 4%.

Should you buy Suncor?

The stock trades at $42 compared to $55 last summer.

Oil prices could see the recent upward trend continue through the end of the year and into 2020. OPEC and a handful of its partners have agreed to maintain supply cuts through next March. In addition, Saudi Arabia would prefer to see higher oil prices as it restarts plans to sell part of its oil company to global investors.

If you are an oil bull, but want to take a conservative position, Suncor should be an attractive bet right now.

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