



Is Suncor Energy Inc. (TSX:SU) Stock a Buy at \$40?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock has given back a good chunk of its 2019 gains, which has investors wondering if this is a good time to add the shares to their portfolios.

Let's take a look at the current situation in the oil market and try to determine if Suncor deserves to be on your [buy list](#) today.

Oil volatility

At the time of writing, WTI oil trades at US\$56 per barrel. That's much better than the US\$43 it fetched in late December, but down from the 2019 high of about US\$66 it hit in May, and well off the US\$76 the market reached last summer.

Oil bulls say prices could move significantly higher in the coming months and into 2020, supported by supply reductions from Iran and Venezuela due to U.S. sanctions.

In addition, OPEC members and a handful of other countries, including Russia, recently agreed to extend supply cuts through March next year. Saudi Arabia is OPEC's largest producer and the country is restarting the preparation to raise funds through a listing of its oil company, ARAMCO.

In order to fetch as high a price as possible, it would be in their interest to have oil prices moving higher when the public offering occurs.

Oil bears point to strong production growth in the United States that can help offset cuts by other producers. The ongoing trade war between China and the United States is also having a negative impact.

Chinese growth is at its lowest rate since 1992 and the longer the trade battle continues, the more likely the broader global economy will be hit. The IMF just lowered its global growth forecast for this year and 2020.

Where the market goes from here is anyone's guess, but investors shouldn't expect a drastic move to the upside unless there is a major shock, such as a blocking of the Strait of Hormuz by Iran.

The likely scenario over the next year is range of US\$55-65 per barrel for WTI.

Should you buy Suncor?

Suncor trades at \$40 per share at writing compared to \$55 last summer. The company can generate solid cash flow and profits at current market prices and investors should see revenue growth continue as Hebron and other projects ramp up production.

Suncor's board raised the dividend by nearly 17% for 2019 and the company has an aggressive share buyback plan in place, so management is obviously comfortable with the cash flow outlook.

The stock provides an attractive dividend [yield](#) of 4.2%.

Additional downside could be on the way in the near term, but buy-and-hold investors who have a positive outlook for the oil market might want to start nibbling while Suncor's stock is out of favour.

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