Suncor Energy (TSX:SU): Should You Buy the Stock Today?

Description

Oil prices are surging after an unprecedented attack on Saudi Arabia's largest oil-processing facility and its second-largest oil field.

The event could force global oil traders to add a new risk premium to the price of oil, and investors are wondering if this might be the right time to get back into Canadian oil stocks, including the country's biggest player, **Suncor Energy** (TSX:SU)(NYSE:SU).

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

Oil supplies

The drone attack on Saudi Arabia's Abqaiq oil-processing facility, the planet's largest, cut the country's oil output in half. In terms of supply, that's about 5.7 million barrels per day.

Aramco, the country's national oil company, said it expects to have two million barrels per day back online very quickly, but the market is still waiting for a full assessment of the damage and the potential medium-term impact on the global oil market.

The hit represents about 5% of total oil supply, which risks pushing prices significantly higher, given the relatively low surplus levels in the market. Some pundits are already suggesting oil could drift back toward US$100 per ounce.

At the time of writing, WTI oil is up 10% to US$60 per barrel. Brent crude, the international price that Saudi Arabia receives, is up 10% to US$66.

Houthi rebels in Yemen claimed responsibility for the attack. The United States, however, is blaming Iran. This has the potential to increase tensions between OPEC members Saudi Arabia and Iran as well as bring a new focus back on the U.S. sanctions against Iran.

The United States is releasing oil from its strategic reserves to keep the market adequately supplied.

The announcement by President Trump helped cut the price jump in half. At one point, Brent futures rose nearly 20%.

Should you buy Suncor?

The Canadian energy sector could benefit from the event in Saudi Arabia, and Suncor should be a attractive pick.

Higher oil prices will improve margins and cash flow. At the same time, interest in Canadian oil and the producers could increase, given the safety of the supply.

Suncor is Canada's largest integrated energy company, with production, refining, and retail operations. The upstream assets include oil sands and offshore oil production. Suncor gets WTI or Brent pricing for the majority of its production, so a sustained increase in global oil prices would have a positive impact on revenue and profits.

Suncor's downstream businesses provide a nice hedge against lower prices, so there is a safety net in the event the pop in the oil market turns out to be a short-term event.

Suncor's stock traded at $55 in 2018 when WTI oil was above US$70 per barrel. At the current price of $40 per share, investors can pick up a solid 4% dividend yield. The company has a strong track record of increasing the payout, and another generous hike should be on the way in 2020.

If you are searching for a conservative pick in the Canadian energy sector, Suncor appears cheap today and pays an attractive dividend while offering a shot at some significant upside in the event oil prices continue to move higher.

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