Pension Investors: Should Suncor Energy (TSX:SU) Stock Be in Your RRSP?

Description

While the broader TSX Index has enjoyed a strong 2019, the energy sector has largely not participated in the party. That has contrarian investors wondering if it might be time to start buying oil and gas stocks heading into 2020.

Let's take a look and **Suncor Energy** (TSX:SU)(NYSE:SU) to see if it deserves to be on your RRSP buy list right now.

Stock chart

Suncor began 2019 trading near $38 per share. The stock price topped $46 in March, before heading into a steady decline that saw it close below $37 in August. A small rally has since occurred and the stock currently trades around $42 per share.

Over the past five years, Suncor has traded in a range of roughly $30 to $55, so there is some decent upside potential when the mood improves in the Canadian oil patch.

Outlook

Suncor gets West Texas Intermediate pricing for most of its production due to its favourable access to existing pipelines that run to the U.S., and the fact that it can send crude to its four large refineries and benefit from higher prices on the finished products.

In addition to the oil sands production, Suncor has offshore oil facilities that can fetch higher global prices.

At the time of writing, WTI oil trades at US$60 per barrel. This is up from a low near US$51 in August and down from the high of US$63 the price briefly touched when Saudi Arabia lost half of its production for a few days due to drone attacks on its facilities.

The OPEC leader restored output very quickly, but the event showed how sensitive the oil market can be to major disruptions in the Middle East.

The U.S. blamed Iran for the attack and the market feared Saudi Arabia would respond with military action. That didn’t occur, but the tension in the region remains an issue. In the event Iran blocks the Strait of Hormuz or a serious military conflict erupts between Saudi Arabia and Iran, oil could easily surge above US$80 per barrel.

At home, pipeline bottlenecks remain a problem for Canadian oil sands producers, but there is potentially light at the end of that tunnel. The Canadian government has given the green light to begin construction on Trans Mountain. Assuming the project gets completed, Alberta’s producers will have added access to the Pacific coast where the product can be shipped to Asian markets.

In addition, Keystone XL is still bumping along through court challenges. It too, could eventually be built, providing a route to American refineries.

The two projects could go into operation in the next two or three years and Suncor would be able to ramp up production and benefit from increased revenue.

Integrated businesses

In the meantime, the refining and retail businesses provide a nice revenue hedge against lower oil prices. This helps provide steady cash flow to help support the dividend.

Suncor raised the distribution by nearly 17% in 2019 and another juicy hike should be on the way in 2020. At the current stock price, investors can pick up a solid 4% yield.

Should you buy?

Oil could have a good year in 2020, especially if the U.S. and China continue to make progress on their trade negotiations. Phase one is apparently done, and that should make the next step easier. If the market senses a rebound in global economic activity is on the way, oil prices could surge.

Suncor is a leader in its industry and the share price appears cheap today. Investors searching for a new RRSP investment should put the stock on their radar.

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Date
2025/09/15
Date Created
2019/12/17
Author
aswalker