Top Energy Stocks: Should You Buy Suncor Energy (TSX:SU) Now?

Description

Oil prices remain low, but top energy stocks such as **Suncor Energy** (TSX:SU)(NYSE:SU) are starting to recover.

Is the rally sustainable?

Suncor's share price fell from $40 in February to a closing low near $15 on March 23. At the time of writing, the stock now trades above $23 and is picking up momentum.

This might seem odd given the state of the oil sector. Global oil markets risk hitting storage capacity in the coming weeks. Recent trading saw WTI futures plunge into negative territory, and some pundits say another crash is on the way. Oil still trades well below US$20, putting the price at a point where most producers lose money.

Analysts say demand is down as much as 20 million barrels per day due to global lockdowns. This is double the level of production cuts announced by OPEC+ in an effort to support the market.

Why are oil stocks rising?

The pandemic appears to be past its peak in top oil-consuming markets. Moves to open the economy are now beginning in the United States, Canada, and Europe. China is already getting back to business.

The stock market indicates future expectations, rather than current situations. The latest American Petroleum Institute report showed a lower inventory build than was expected for the week ended April 24.

This helps reduce fears the market could reach capacity storage. In addition, it could indicate that American producers are cutting output more than anticipated. The U.S. shale sector is getting hammered by low prices, and more production is expected to shut down, as companies with high debt levels go bust.

Should you buy Suncor today?

Suncor has a strong balance sheet and the integrated nature of its business normally makes it less susceptible to falling oil prices. Suncor is best known for its oil sands operations, but it also has large refineries and retail businesses.

The downstream assets, however, are taking a hit right now. Refiners are cutting output or closing operations due to reduced demand for fuel. Suncor also operates roughly 1,500 Petro-Canada service stations. These won't see a strong recovery until the economy opens up again.

On the production side, a *Moody's Investors Services* note released April 28 suggests more pain might be on the way, unless global producers slash output even more or economic activity rebounds in a meaningful way.

Nonetheless, a recovery is expected at some point. Moody's sees WTI oil averaging US$30 for 2020 and US$40 for 2021. Canada and the U.S. plan to slowly get their economies back on track in the next few months. Any signs that coronavirus treatments or vaccines are making good progress could boost the pace of the recovery.

Suncor has the liquidity to ride out the storm, and investors could see the energy giant use its strong financial position to add new resources while the market is under pressure. The dividend should be safe as long as the economy starts to recover through the end of the year.

Investors who buy Suncor now can pick up a solid 8% dividend yield.

While we could see more volatility, Suncor appears cheap at this price. The IMF anticipates a strong global economic rebound next year. Oil prices could actually jump more than expected if that turns out to be the case.

As such, investors with some cash on the sidelines might want to start adding Suncor to their portfolios. It wouldn't be a surprise to see the stock move above $30 by the end of the year.

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aswalker