Suncor Energy (TSX:SU): Is the Stock a Buy on the Recent Oil Rebound?

Description

The recovery in the price of oil over the past month has investors wondering if this is the right time to start buying shares of **Suncor Energy** (TSX:SU)(NYSE:SU).

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

Oil outlook

Suncor's CEO recently rattled oil investors with a comment regarding the outlook for oil demand. In an opinion article published in *Corporate Knights* magazine, Mark Little said low-carbon technologies might hit oil demand in the same manner the market has witnessed during the pandemic lockdowns.

At first glance, it appears odd that one of Canada's leading oil producers would warn of the demise of the industry, but the article goes on to discuss how Suncor's oil sands assets can be used in the new era of innovative low-carbon solutions.

Little said carbon fibre, for example, is being used to produce lighter vehicles. This is important for the evolution of electric cars and trucks. The core product, asphaltene, represents 15-20% of bitumen and is used as the feedstock for creating carbon fibres.

Suncor's CEO goes on to say that revenue could potentially quadruple from Alberta's existing bitumen output if the industry can find a way to produce the carbon fibres in an affordable way at scale.

In another recent announcement, Suncor is investing $15 million to launch LanzaJet. The new firm will produce sustainable aviation fuel (SAF) and renewable diesel using sustainable ethanol sources.

While Suncor is best known for its oil sands operations, it also owns four large refineries. These turn crude oil feedstock into end-products such as jet fuel, gasoline, diesel fuel, and asphalt.

Earnings

The 30% drop in global oil demand due to the coronavirus lockdowns is a wake-up call for the energy industry.

Suncor reported an operating loss of $309 million for Q1 2020, compared to operating earnings of $1.2 billion in the same period last year. The plunge in oil prices hit margins on the oil production operations, while the lockdowns and travel bans hit demand for fuels supplied by the refineries.

In addition, Suncor operates more than 1,500 Petro-Canada retail locations. A drop in commuter and commercial traffic reduced spending at the pumps.

Upside

Long-term demand destruction for fuel is worth keeping in mind when evaluating the stock. The near-term outlook, however, might be positive.

Why?

The oil crash forced producers to cut capital programs and trim output at high-cost facilities. This occurred in step with announcements of OPEC+ to reduce oil supply by nearly 10 million barrels per day from May 1, 2020.

WTI oil has recovered from the April meltdown and currently trades at US$36 per barrel. As economies reopen and oil demand rebounds, there is a chance the industry could get caught short, sending oil much higher.

Suncor cut its dividend by more than 50% when the Q1 numbers came out. The move, combined with reductions in operating costs and cuts to capital spending, brings the cash break-even price for the company's production down to WTI US$35 per barrel.

Is Suncor stock a buy?

The stock trades at $25 per share. Investors who had the courage to step in at $15 in March are already sitting on some nice gains. More upside could be on the way as the oil market recovers through the end of 2020. Suncor traded for $45 in January when West Texas Intermediate oil was above US$60.

The 2020 Q2 results will likely be ugly, but things should improve through the back half of the year. If you are positive on the oil market for 2021, Suncor deserves to be on your radar.

Long-term growth will depend on the success of the new initiatives.

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