



## OPEC+ Extends Production Cut: Should You Buy Suncor (TSX:SU) Stock?

### Description

Top TSX oil stocks jumped on Friday before OPEC+ countries further extended the production cut by one more month till July end. Shares of **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) closed more than 10% higher. Meanwhile, **Cenovus** and **Imperial Oil** jumped 8.5% and 5.7%, respectively.

Earlier in April, the OPEC+ countries agreed to reduce production by 9.7 million barrels per day to support oil prices. The reduction in output drove oil prices higher, which have more than doubled since then. Meanwhile, on Saturday, OPEC+ nations further agreed to [extend the production cut](#) by one more month.

The demand for oil is likely to increase with the reopening of the economy. Increase in demand and lower production should help in stabilizing oil prices, which is a good sign for oil companies. Though the recent moves could help to set a balance between demand and supply, an uncertain economic outlook continues to pose challenges and makes it hard to predict the pace of the recovery.

### Now what?

The sharp rebound in oil prices has driven Suncor stock higher. Shares of Suncor Energy have increased by more than 20% in one month. In May, Suncor announced measures to reduce its cash breakeven price by cutting capital and operating costs. The company stated that at a WTI (West Texas Intermediate) price of US\$35 per barrel, it would be able to meet all of its planned capital needs, operating and administrative costs, and cover dividends. With WTI settling around US\$39 last week, prospects for Suncor are improving.

Besides, Suncor's integrated business model positions it well to benefit from the improvement in demand. The company's downstream business could continue to support its cash flows in the coming quarters. Also, Suncor's production and refining mix shift toward higher-priced light crude and distillate should help in maximizing the price realizations and support margins and cash flows.

Suncor also maintains a strong liquidity position that should help the company survive any protracted recovery.

## Bottom line

While prospects continue to improve for Suncor Energy, [my view on the stock remains unchanged](#). I continue to believe that Suncor stock is not the best investment option at the current price levels. Besides, the recent jump in its stock price indicates that positives are baked in.

I find Suncor's current valuation highly unattractive. Suncor's stock trades at a significant premium when compared to the industry average. Suncor Energy stock trades at next 12-month EV-to-EBITDA ratio of 11.1, which is considerably higher than the industry average of 2.4. Also, Suncor Energy stock trades at the next 12-month price-to-cash flow ratio of 9.7, as compared to the industry average of 2.9.

While too much focus is placed on reducing the supply to support oil prices, I believe it's the recovery in demand that is likely to normalize the current imbalance. While I expect the demand to increase with the reopening of the economy, it is hard to gauge at what pace the recovery might come.

Given Suncor's high valuation and a high degree of uncertainty, I would like to wait for a better entry point to go long on Suncor stock.

### CATEGORY

1. Coronavirus
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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**Author**  
snahata

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