Is Suncor Energy (TSX:SU) a Cheap Stock Today?

Description

Suncor Energy (TSX:SU)(NYSE:SU) took a big hit in recent months as pandemic lockdowns hammered demand for oil and fuel products. Contrarian investors are now wondering whether this might be a good time to add the stock to their Tax-Free Savings Account (TFSA) portfolios.

Oil market

Suncor is best known for its oil sands production, and the company also has offshore oil facilities.

The price of West Texas Intermediate oil is back above US$40 per barrel, a major improvement from April, when the futures price briefly went negative.

OPEC+ reduced oil supply starting in May by roughly 10 million barrels per day. A recent *Bloomberg* report says the consortium of oil producing countries cut production in June to the lowest level in nearly 30 years. In addition, low prices have forced oil companies in Canada and the United States to reduce output and slash drilling programs in order to preserve cash.

The net impact is a significant reduction in oil supply. At the same time, the global economy is starting to reopen and that should begin to boost demand.

Fuel market

Suncor is Canada's largest integrated energy company, with four large refineries and roughly 1,500 Petro-Canada retail locations. These downstream assets normally serve as good revenue hedges for Suncor when oil prices dip. However, the pandemic lockdowns hit these business units as well.

The refineries produce jet fuel, gasoline, and diesel fuel. Airlines cut capacity by roughly 90% in recent months due to travel bans implemented by countries around the globe. Borders are slowly being opened to foreign visitors, which should drive a rebound in flights.

The airline industry, however, doesn’t expect to be back to 2019 capacity for at least three years.

On the gasoline side, commuters might start to use their cars more as offices reopen, which could lead to a surge in gasoline demand above previous levels, especially if millions of people refuse to take public transport.

The increase would be offset by more workers deciding to remain based from their home offices, rather than returning to their corporate locations.

An increase in economic activity should boost the trucking industry and drive higher demand for diesel.

Risks?

Tesla just surpassed **Toyota** as the planet’s most valuable car company by market capitalization. The trend toward electric vehicles is picking up steam, which will reduce demand for gasoline and diesel fuel in the coming years.

Should you buy Suncor?

Suncor slashed the dividend by more than 50% in recent months. The payout now provides a yield of 3.7% at the current stock price of $22.71.

Dividend investors should probably look for other opportunities. You can get much higher yield with a stronger dividend growth outlook from top names in a number of other sectors.

Contrarian investors who are of the opinion we are going to see a V-shaped recovery in the global economy, however, might want to consider adding Suncor at this level. The stock traded above $45 per share earlier this year, so there is decent upside potential.

In the next few years we could see a significant surge in global economic growth supported by massive central bank stimulus efforts. Tight supply conditions in the oil market could briefly emerge in the next 18 months, and it wouldn’t be a surprise to see oil take a run at US$60 per barrel.

Any meaningful surge in oil prices should drive Suncor’s shares much higher.

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