



Is Suncor Stock a Contrarian Buy Today?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) continues to be out of favour with investors, despite a stabilized oil price. Is Suncor stock now too [cheap](#) to ignore?

Oil market

WTI oil trades near \$40 per barrel. Aside from a pullback in September, the price has been quite steady since the end of May. Russia recently came out with a positive statement, saying it favours extending output cuts agreed with OPEC earlier this year.

The OPEC+ pact is set to end by January, but rising production out of Libya is boosting supply while the ongoing travel restrictions keep a lid on a recovery in air travel and demand for jet fuel.

Looking ahead, investors should expect the oil market to trade in a narrow range. Europe and the United States are struggling to prevent the second wave of the virus from forcing another round of widespread lockdowns. As cases hit new daily records, oil traders will become uneasy and unwilling to make large bullish bets.

Heading into 2021, however, the situation could begin to improve. COVID-19 vaccines might be widely available by the middle of the year. Oil prices could start to rise ahead of anticipated increases in demand.

Beyond 2021, some analysts say the market might actually get tight. Steep cuts made to capital investments across the industry in 2020 could lead to supply shortages in the coming years as demand recovers.

The International Energy Agency (IEA) anticipates an overall demand drop of 8.4 million barrels per day (mb/d) in 2020, followed by a 5.5 mb/d jump in 2021. A potential boost in the next few months could come from the IEA's estimate that global oil stock drawdowns could be 4.0 mb/d in Q4 2020.

Based on the October report, the IEA says oil prices might not get back to US\$50 per barrel until 2023.

Should you buy Suncor stock now?

Suncor picked up bit of a tailwind in recent days after a steady decline from the June high of \$28. It trades for close to \$16.50 at the time of writing.

At this price, investors pick up 5% [dividend](#) yield. The payout should be safe. Suncor cut the distribution by 55% earlier this year.

Reports emerged in recent days that Suncor is [evaluating](#) the possible sale of some of its offshore oil assets. Suncor has stakes in projects in the North Sea that can be sold to bolster the balance sheet by as much as US\$500 million according to the report. This would help the company refocus its resource base.

Ongoing volatility should be expected. OPEC might not meet its objectives on supply cuts. In addition, the pandemic shows no sign of slowing down, and vaccines might not be available for months. In addition, a broad-based market correction after the U.S. election is possible. This could send Suncor's stock price back toward to 2020 lows.

Despite all the uncertainty, the stock appears oversold right now and downside risk should be limited.

If you have some cash available and are positive on the oil market over the next five years, Suncor deserves to be on your contrarian radar. It wouldn't be a surprise to see the stock take a run at \$30 in 2021.

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