



Contrarian Investors: Is Suncor a Good Stock to Buy Today?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) trades close to its 2020 lows. Some pundits say the share price is heavily [oversold](#). Should Suncor stock be on your contrarian buy list right now?

Oil market outlook

The pandemic hammered oil prices earlier this year. In fact, the futures market briefly went negative in April. Traders feared global storage capacity wouldn't be adequate to handle ongoing supply. In the end, the market avoided the problem and oil prices quickly recovered some lost ground.

West Texas Intermediate (WTI) oil trades near US\$38 per barrel at the time of writing. It has remained relatively stable since the beginning of June, although oil is down a bit in the past week due to new pandemic lockdowns in Europe.

The second COVID wave that is hitting Europe and the United States threatens to delay a recovery in oil demand. Ongoing restrictions for international travel are keeping airplanes on the ground. The drop in jet fuel consumption means refineries need less crude oil feedstock. In addition, people will continue to work from home for several months. This hits demand for gasoline as employees don't need to commute to the office.

Until COVID vaccines are widely available, the price of oil is likely to remain in its recent trading range.

Risks for Suncor stock

Beyond the pandemic, people might remain at home for part of the week. If that turns out to be the new normal, commuting demand for gasoline might not recover. On the airline side, the success of online meetings during the pandemic could permanently impact business travel, as companies decide they don't need to send executives and sales people around the globe on expensive trips to visit clients.

Business class seats are very profitable for airlines. If business travel doesn't bounce back, [airlines](#)

might not see capacity return to previous levels.

Suncor is Canada's largest integrated energy company with production, refining, and retail divisions. The downstream assets historically provided a hedge against volatile oil prices caused by supply shifts. However, the pandemic is hitting the refining and gas station operations, as well as the upstream operations.

Suncor's breakeven price is roughly US\$35 per barrel, so there isn't much money to be made if oil remains stuck close to US\$40.

Opportunity for Suncor

Oil bulls suggest the market could eventually find itself in a shortage position. The industry slashed hundreds of billions of dollars in investment in 2020. That will have an impact on reserve growth and output capacity in the next few years.

Once the pandemic ends, the global economy could go into overdrive, supported by unprecedented fiscal stimulus efforts by governments around the world. Oil demand will recover and there is a chance the market might get tight. Some analysts see WTI oil returning to US\$100 per barrel in the next five years.

The International Energy Agency (IEA) is less optimistic. In its [October report](#) the IEA said it doesn't expect oil to reach US\$50 per barrel until 2023.

If the oil bulls prove to be correct, Suncor looks cheap right now. The stock trades at less than \$16 per share compared to \$45 in January.

Should you buy Suncor stock now?

Near-term volatility should be expected. In the event the broader stock market corrects meaningfully in the coming weeks, Suncor could easily drop to a new 12-month low.

That said, the current dividend should be safe, so you get paid a decent 5% yield to ride out the turbulence. Contrarian investors with a positive view on the oil market over the medium term might want to start nibbling at this level.

It wouldn't be a surprise to see Suncor return to \$30 in the next two years as the global economy recovers.

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Date

2025/08/24

Date Created

2020/11/03

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