



Is Suncor Stock a Buy at \$20?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) took a major hit this year, but the share price is starting to pick up a new tailwind. Is this the right time to put Suncor stock in your contrarian portfolio?

Oil market outlook

The International Energy Agency (IEA) indicated in the [November report](#) that the resurgence of COVID-19 in Europe and the United States forced it to downgrade its outlook for global oil demand in the coming months, but the full 2021 guidance saw an improvement.

Overall demand for 2020 is expected to drop by 8.8 million barrels per day (mb/d). The IEA expects oil demand to rise by 5.8 mb/d in 2021. That's better than the 5.5 mb/d increase it anticipated in the October report.

Supply is another factor to consider. OPEC and Russia are expected to extend supply cuts announced earlier this year. The IEA says compliance on the agreement remains steady, which is always an issue. That said, a continued rebound in production in Libya could offset part of the OPEC+ cuts. The country's production increased about one mb/d to the market since August.

In the near term, the IEA doesn't see much reason for oil prices to move meaningfully higher.

Why did Suncor stock fall so far?

Oil prices normally fluctuate due to supply situations. Increased OPEC output or geopolitical threats often impact the market.

Suncor's stock price has traditionally held up reasonably well when oil prices fell due to the integrated nature of its business. The company is a producer, but also has four large refineries and 1,500 Petro-Canada retail locations. In the past, steady fuel demand during times of lower oil prices helped the downstream assets offset the hit to upstream margins.

The main story in 2020, however, is demand destruction. [Airlines](#) saw capacity drop more than 90%, and commuters around the world have parked their cars in the driveway. As a result, demand for jet fuel and gasoline crashed, and Suncor's downstream assets took a beating.

The removal of travel restrictions and a return to offices won't occur until vaccines become widely available.

Should you buy Suncor stock now?

Suncor stock trades near \$20 per share at the time of writing. That's up more than 30% from the recent low, but way off the 12-month high around \$45. The company slashed the dividend by 55% earlier this year to preserve cash flow. The current payout should be safe and provides a 4% yield.

Volatility should be expected in the next few months, but fuel demand will increase in the second half of 2021. Airlines could be back to 2019 capacity in three or four years.

On the supply side, the market might get tight in the medium term due to the massive cuts made to investment this year. The IEA says hundreds of billions of dollars in investment is needed to replace reserves in the next decade to meet demand growth.

If you have a buy-and-hold strategy, Suncor stock looks cheap right now and might be worth adding to the portfolio. You get paid a decent [dividend](#) to wait for the rebound and it wouldn't be a surprise to see the stock price top \$30 in the next 18 months.

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Date

2025/07/19

Date Created

2020/11/19

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