TFSA: Is Suncor Stock a Good Buy for 2021?

Description

Suncor (TSX:SU)(NYSE:SU) took a big hit in 2020. In recent weeks, however, the share price moved off the lows, and contrarian TFSA investors are wondering if Suncor stock should be on their 2021 buy list.

Oil price outlook for 2021

At the time of writing, WTI oil is US$49 per barrel. Brent trades at US$52. These are the highest prices in nine months and reflect market optimism on the rollout of COVID vaccines.

The oil surge over the past six weeks caught most investors off guard. WTI is up more than 35%, despite the risk of widespread lockdowns around the globe due to the second COVID wave. Major economies, including the United States, Canada, and Europe, all face rising COVID cases that threaten healthcare systems.

The end result is likely to be a slower economic recovery. This means reduced fuel demand, as cars remain parked and airlines keep planes grounded.

The International Energy Agency (IEA) recently released its December 2020 report. In the short term, the IEA says oil demand will remain weak.

China and India drove most of the demand rebound in the back half of 2020, and those countries will continue to see strong oil consumption. The OECD countries, however, tell a different story. European demand in Q4 2020 will likely be less than Q3 due to new lockdowns.

The IEA reduced its global demand outlook for the first half of 2021 in the December report primarily due to a struggling airline industry.

Current market prices sit above the IEA's expected average for 2021, so the market might be a bit too optimistic. Vaccine rollouts to the broader public in developed markets won't occur until the second half of 2021 in most cases.

Fuel demand impact on Suncor stock

Suncor's largest operations include the oil sands production sites. Suncor also has offshore oil assets. In addition, the company runs four refineries and roughly 1,500 Petro-Canada retail locations.

In normal times, a decline in oil prices is typically the result of increased supply from OPEC members or U.S. shale producers. Fuel demand usually remains strong. In these situations, Suncor's refining businesses benefit from lower crude oil feedstock prices and can generate decent margins to help offset lower production profits.

The 2020 crash came as a result of demand destruction. All of Suncor's business units got hammered. That's why the board cut the dividend by 55% to weather the storm.

Higher oil prices definitely help the upstream business. Suncor's operating breakeven is around $35 per barrel. For the stock to fully recover lost ground, fuel demand needs to ramp up to support higher revenues for the refining and retail groups.

Should you buy Suncor stock now?

Assuming the IEA's price predictions are accurate, near-term headwinds could result in some profit taking in the oil market. A broad-based correction in equities is also a risk in the coming weeks.

Suncor stock appears attractive right now if you have a three-year outlook, but investors looking to buy the shares might want to wait for a better entry point. We could see more downside before the rally resumes.

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