Should You Buy Suncor Stock Today?

Description

Suncor (TSX:SU)(NYSE:SU) took a big hit in 2020, and the stock is still way off the 12-month highs. Is the market too negative on Suncor stock right now?

Oil price outlook and Suncor stock

WTI trades at US$56 per barrel. That's up from US$36 in late October and comfortably above most 2021 estimates for the year. In fact, oil is now at a 12-month high, topping its pre-pandemic price. Suncor trades close to $22 at the time of writing. A year ago, when oil last traded at these levels, Suncor stock fetched more than $40 per share.

The longer oil remains above US$50 per barrel, the more likely it is the market will start to warm up to Suncor stock. Many countries remain in tight lockdowns due to the second COVID-19 wave, but vaccine roll-outs are underway, and traders are starting to look at the anticipated demand growth in the back half of the year.

At the same time, OPEC+ appears willing to maintain its commitments to reduce supplies while the market recovers. Saudi Arabia put a unilateral cut of one million barrels per day in place for February and March.

Analysts increasingly see tight conditions emerging in the market. A recent report suggests oil could move as high as US$65 on higher demand and restricted supply in the coming months.

In that scenario, Suncor appears very cheap today.

Suncor's operations ready for recovery

Suncor is best known for its oil sands production. This remains the largest part of the business, but the company also runs four large refineries and roughly 1,500 Petro-Canada retail locations. As the economy begins to open up, fuel demand will recover.

The refineries make gasoline, diesel fuel, jet fuel, and other products such as asphalt. The International Energy Agency expects global gasoline and diesel fuel demand to effectively recover by the end of the year. Jet fuel is another story. Airlines face even tighter restrictions now than in 2020, and that scenario likely won't change for a few months.

Governments worry about importing new COVID-19 variants. In Canada, all flights to Mexico and the Caribbean are cancelled until the end of April. New COVID-19 testing requirements are reducing bookings. Route cuts continue. The outlook for 2022, however, should be better.

Suncor's downstream operations typically provided a nice revenue hedge against times of low oil prices. The model didn't work in 2020, and that's probably why the stock remains out of favour. Once the pandemic passes, things should reverse course.

Should you buy Suncor stock now?

There is light at the end of the tunnel. Suncor's operational breakeven is roughly $35 per barrel, so the upstream business has the potential to generate strong cash flow at existing oil prices. Even if WTI oil remains near US$50 for most of 2021, the stock should move higher.

Continued momentum in the oil price towards US$60 will attract investors back to the stock. Suncor is a leader in the Canadian energy patch and the integrated nature of the business makes it less volatile in normal times. The board slashed the dividend by 55% last year. The current payout provides a yield of 3.8%. As the business gets back on its feet, dividend growth should resume.

If you have some cash sitting on the sidelines, Suncor might be a good buy in an otherwise expensive market today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Yahoo CA

Category

1. Investing

Date
2025/08/25
Date Created
2021/02/03
Author
aswalker