



Suncor Stock: Could Oil Hit US\$100 in 2022?

Description

The rebound in the oil market has investors wondering if **Suncor** ([TSX:SU](#))([NYSE:SU](#)) and other top energy stocks are [good buys](#) right now.

Oil market outlook

Last April, oil futures briefly traded in negative territory amid fears that global storage capacity wouldn't be able to handle supply. The world avoided the situation and oil prices have since staged a stronger recovery than most analysts anticipated. Pundits widely predicted oil would average US\$50 per barrel in 2021. At the time of writing, WTI oil trades near US\$62 and shows no sign of slowing down.

As COVID-19 vaccines reach the general public, governments will lift restrictions, and fuel demand should surge. Commuters will return to offices at least a few days a week. Eventually, [airlines](#) will restart cancelled routes and ramp up capacity on improved travel demand. The International Energy Agency (IEA) [predicts](#) oil demand will grow by 5.4 million barrels per day in 2021. This would be a 60% recovery of the volumes lost in 2020 due to the pandemic.

OPEC+ has maintained its commitment to reduce supply to support prices. Saudi Arabia went one step further and announced an additional cut of one million barrels per day for February and March. Analysts say Saudi Arabia needs oil to be about US\$80 per barrel for the country to meet its domestic financial commitments.

The surprise winter storm that recently hit Texas added to supply concerns. A large chunk of U.S. oil production shut down, and it might take a few weeks before the sector can get back to normal operations. Longer term, the impact of reduced investment by producers around the globe in 2020 could result in a supply squeeze in the coming years. Oil producers shelved hundreds of billions of dollars in exploration and development expenditures last year. Replacing resources requires ample planning and significant investment.

Could oil hit US\$100?

A number of analysts now expect WTI oil to reach US\$75 before the end of 2021. Any shocks to supply or geopolitical threats in the Middle East could easily push the price higher on a short-term spike. Some pundits say a surge to US\$100 wouldn't be a surprise. Fundamentals, however, suggest that would be a stretch. OPEC+ has capacity to increase supply and it is expected the group will take advantage of the higher prices and raise production in the coming months.

Demand is recovering, but the IEA says it will be the second half of 2021 before the market starts to see the benefits of COVID-19 vaccinations. As such, the big oil story could be 2022.

Should you buy Suncor stock now?

Suncor trades near \$26 per share at the time of writing. The stock was \$44 before the pandemic when WTI oil was at US\$60. Suncor traded above \$55 in 2018 when WTI oil hit US\$70.

If estimates for a return to US\$100 oil turn out to be true, Suncor stock looks like a bargain right now. Even at current prices, Canada's largest integrated energy company appears oversold. Higher oil prices will boost margins in the production operations, and rising fuel demand should support a strong rebound in the downstream refining and retail businesses.

The stock isn't as cheap as it was last fall, but investors who think the oil rally has legs might want to add a bit of Suncor to their portfolios at this level.

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