Suncor (TSX:SU) Stock: Time to Buy or Book Profits?

Description

Suncor (TSX:SU)(NYSE:SU) picked up a nice tailwind in recent months on rising oil prices. As the global economy opens up, investors who missed the rally wonder if Suncor stock is now too high or still remains undervalued.

Oil market outlook

Oil traded for US$36 per barrel in late October last year. Today West Texas Intermediate (WTI) oil trades near US$64. Analysts scrambled to revise price estimates in recent weeks, with new targets of US$75 in 2021 becoming more common. Oil bulls even see WTI taking a run at US$100 in the next two years.

Traders are betting the rebound in the global economy will drive a recovery in fuel demand. Commuters will start to return to the office in the coming months and airlines should benefit from reduced travel restrictions.

How quickly the world will return to 2019 level oil demand remains to be seen.

The International Energy Agency (IEA) said in its December 2020 report that global gasoline demand could recoup most of its 2020 losses by the end of 2021. Suncor has refining and retail operations in addition to the production business, so a jump in fuel demand should boost revenue and cash flow. This would be good news for investors who took a 55% cut to their dividend last year.

Overall oil demand however, might not rebound as quickly as the oil bulls hope. The IEA's March 2021 report predicts a more subdued picture. The IEA now says global oil demand will rebound by 5.5 million barrels per day in 2021 but won't return to 2019 levels until 2023.

Risks to fuel demand

Work-from-home arrangements could become permanent for a percentage of former office workers, which could limit the rebound in gasoline demand. Airlines hope people will return to the skies as soon as vaccinations are rolled out to the general population and restrictions are lifted. Vacation demand should be strong, but business travel remains a wildcard.

Shifts to electric vehicles in the next decade could mean global gasoline demand is near its peak.

Risks for Suncor stock investors

Oil prices might have gotten ahead of themselves, and could be ripe for a meaningful pullback. Heading into 2021, the consensus estimate for average oil prices was about US$50 per barrel for the year. Producers in Texas are up and running again after shutdowns caused by a winter storm. OPEC+ could start to ramp up output in the next few months. The group, led by Saudi Arabia, cut supplies over the past year to help balance the market.

A third COVID-19 wave in Europe now risks delaying the recovery in oil and fuel demand in the region.

In addition, a company-specific risk looms in the coming months. The governor of Michigan wants to shut down a pipeline that supplies one of Suncor’s large refineries. If that occurs, Suncor could take a hit.

Is Suncor stock a good buy now?

Suncor stock trades near $28 per share at the time of writing. While that’s up from $15 last fall, it’s still way below the $45 it hit in early 2020 before the pandemic.

Investors who bought Suncor shares near the 2020 lows might want to book some profits, and I would probably wait for a pullback before taking a new position in the stock. The rally in the price of oil looks like it might be ready for a breather.

Suncor’s stock should perform well over the next few years. In fact, a move back to $45 is definitely possible, but investors could see a better entry point in the near term.

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