



Suncor (TSX:SU) Stock: Buy the Dip or Wait?

Description

Suncor ([TSX:SU](#))([NYSE:SU](#)) is giving back some gains on recent weakness in the oil market. Investors who missed the rally want to know if they should buy Suncor stock now or wait for a better entry point.

Oil price outlook

West Texas Intermediate (WTI) oil trades near US\$59 per barrel at the time of writing. That's down from US\$66 earlier this month, but way up from US\$36 in November last year.

Positive COVID-19 vaccine news started the rally. It then picked up steam in early 2021 when developed economies started rolling out vaccines. The United States and the U.K. are leading the charge and that helped drive optimism in the oil sector.

The U.S. also announced a US\$1.9 trillion [stimulus package](#), giving the oil market an added boost as traders bet on rising demand as the U.S. and global economies recover.

Supply cuts from OPEC+ and an additional unilateral cut by Saudi Arabia contributed to the rally, as well.

Why are oil prices falling?

OPEC+ is scheduled to meet in early April to decide if the market can handle an increase in supply. Saudi Arabia's additional reduction of one million barrels per day is set to end on March 31. Markets might be concerned that OPEC+ will decide to end the supply restrictions and flood the market with new oil.

At the same time, the emergence of the third COVID-19 wave in many countries is forcing new restrictions. Much of Europe has entered another round of lockdowns. That could slow the recovery in fuel demand in the EU, which is a major market. The EU is way behind the U.K. and the U.S. on its vaccination efforts, so it will take longer to ease restrictions on travel. Work-from-home orders could

remain in place until the end of the summer.

Analysts scrambled to raise oil price estimates in the first part of the year, with some posting targets of US\$75 or higher. The consensus estimate last fall was for an average of about US\$50 in 2021.

Near-term oil weakness could continue leading up to the OPEC meeting. Depending on the outcome, oil could either pick up a new tailwind in April, or extend the pullback.

Should you buy Suncor stock now?

Suncor trades near \$26 at the time of writing. That's down from the recent high above \$29, but still up significantly from the \$15 mark we saw at the end of October when it was [undervalued](#). A plunge back to that level isn't likely unless oil crashes. However, a slide down to \$23 shouldn't be ruled out in the next few weeks.

Suncor is best known for its oil sands production operations. The sharp recovery in the price of oil to start 2021 could lead to a better-than-expected Q1 2021 report. However, Suncor is an integrated energy company with refineries and retail operations. The downstream businesses continue to feel the impact of low fuel demand. [Airlines](#) face ongoing restrictions and commuters are still working from home.

The emergence of the third COVID-19 wave could delay the reopening of air travel. Offices might not open again until the fall or even the first part of 2022.

While near-term risks remain for the oil market, but the medium-term outlook should be positive for Suncor. As such, buy-and-hold investors might want to start nibbling on further weakness. It wouldn't be a surprise to see the stock head back above \$40 per share once fuel demand normalizes.

That said, I wouldn't back up the truck until there is more clarity on OPEC's plans for the coming months.

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