



Suncor's Leveraged Play on Oil Is a Good Thing Today

Description

A hike in commodity prices has bolstered the demand for energy stocks significantly. Indeed, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) continues to be among the top energy stocks in Canada, for a reason. This is a company that has produced exceptional returns over time. In particular, these returns have only grown more impressive in this higher oil price environment.

That makes sense.

However, investors also need to consider the reality of what took place last year. Oil briefly went negative, for a period of time. Supply and demand were out of whack, leading to incredible volatility across energy prices in 2020. This has been a key headwind for Suncor stock of late.

Accordingly, Suncor's stock price reflects the leverage this company has to the underlying price of oil. For those [bullish on oil](#) right now, that's a great thing. As it happens, I'm in the bullish camp with respect to commodities right now. As such, Suncor continues to be a top pick of mine.

Here's more on why that's the case.

Suncor stock should do well, as long as commodity prices stay elevated

Given where oil is trading at today, it doesn't take a rocket scientist to see investors in Suncor have a good situation on their hands.

Suncor's breakeven price is around \$35 for each barrel. With WTI Crude Futures currently trading around \$65 per barrel, Suncor's making money. A lot of money.

This cash flow growth has allowed Suncor the ability to do things it's wanted to do for some time. The company now has to choose from paying down debt to increasing its dividend or buying back shares. Indeed, if oil prices remain elevated over the longer-term, the company could potentially consistently do all three.

However, it's important to point out that this discussion is based on where commodity prices trade. The fact Suncor's so highly leveraged to oil prices is a good and bad thing. In a way, this stock represents a similar return to a leveraged ETF on oil. Whichever way oil moves, Suncor's stock should move to a slightly greater degree.

That said, should Suncor be able to reduce its debt burden over time, this leverage could dissipate somewhat. Only time will tell where oil prices go, but I think the trend right now is generally bullish for oil prices to at least maintain these current levels. Key assumptions such as continued rising demand and continued OPEC+ production curtailments are key to this analysis. Indeed, I've been proven wrong before.

Bottom line

For those bullish on energy broadly, Suncor is a great way to play this space in a way to maximize longer-term returns. However, for those who don't like volatility or have concerns with the bullish thesis around oil, this might be a stock to steer clear of.

That said, I think there's much to like about Suncor for investors seeking value today. The company's trading at a reasonable multiple with a dividend yield of 3.2%, and is generating cash flow at an impressive rate. The upside looks greater than the downside right now with Suncor stock, in my view.

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Date

2025/08/15

Date Created

2021/04/05

Author

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