



Suncor Energy Stock Could Double Amid Oil Rally

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) and the broader basket of fossil fuel stocks were in the [green](#) on Wednesday, as WTI (West Texas Intermediate) surged above US\$63. For the week, WTI prices are up over 5%. If the momentum continues, the thoughts of US\$100 oil come to mind — something that was unthinkable a year ago, when WTI made an unprecedented, albeit very brief dive into negative territory.

With energy headwinds gradually turning into tailwinds ahead of what could be the greatest economic expansion in decades, I think that Suncor Energy is a name that could realistically double over the next 18 months. Even if the newfound momentum in oil prices were to stop, the battered energy producers still have much room to run, assuming prices were to stabilize above the US\$60 mark.

As you may remember, I'd [pounded the table on Suncor Energy stock](#) just a few months ago, precisely at the bottom in October 2020.

Oil prices: How the tables have turned

Back then, it seemed like nothing could go right for the firms operating in Alberta's ailing oil sands. Suncor stock had shed over two-thirds of its value from the coronavirus market crash, thanks in part to pandemic-induced demand destruction and the continued rise of clean energy. If you bought on my advice and ignored the herd, you'd be up nearly 80% in just a few months. That's not a bad return, but going against the grain is easier said than done.

"There's no question that there's a tonne of negative momentum in [Suncor Energy stock]. Catching a falling knife can be harmful to your wealth over the short term. But with a strong technical level of support at around \$15 and change, I'd argue now is a great time to go against the grain if you've been thinking about initiating a contrarian position in one of the most hated stocks on the **TSX Index**." I wrote, urging investors to load up on the stock while the fundamentals and technical were in alignment.

“With Suncor nearing a critical support level, I’d be inclined to load up on oversold shares of Suncor, as they look overdue for a bounce, especially given most of the negatives regarding a second wave and retreating oil prices are already baked into the stock.”

Suncor Energy stock’s rally could have more room to run

Fast forward to today, and Suncor Energy is picking up traction, not just because of the oil rally, but thanks in part to the rotation back into value stocks. The stock market is broadening out, and I think it’ll continue to do so, as investors ditch growth stories for good, old-fashioned value.

Sure, energy stocks are on the wrong side of a secular trend, but the transition to sustainable energy won’t happen overnight. And as I’ve mentioned numerous times in the past, another big oil boom (>US\$100 WTI) is still possible. As we head into the post-COVID world, the tables could continue to turn, and demand could overwhelm supply.

In such a scenario, count me as unsurprised if Suncor Energy stock were to make a move past its pre-pandemic highs en route to doubling.

Despite SU stock’s big run off the bottom, Suncor Energy stock still appears dirt cheap at 1.1 times book value. It’s as though investors aren’t buying the recent strength in oil prices! Contrarians, like the great Warren Buffett, have been betting that there is real value in big oil. And I think you’d be wise to follow him, not the herd, which are more likely to lead you towards market bubbles like those in EV stocks or NFTs.

Given the trajectory of oil and the economic boom that could come into effect in a matter of months, I’d argue that the risk/reward tradeoff for Suncor and its peers is even better today than it was back in October.

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