



Suncor Stock: Risks and Rewards if You Buy Today

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) trades at a huge discount to its pre-pandemic levels. Investors searching for a recovery play wonder if this is a good time to buy the [undervalued](#) stock.

Oil market impact on Suncor stock

WTI rallied from below US\$40 per barrel last fall to as high as US\$66 in March. At the time of writing, WTI is US\$62. The size of the rebound and its resilience caught some analysts by surprise. The consensus outlook for oil coming into 2021 was for an average price of around US\$50 for the year.

What happened?

OPEC+ decided to keep its supply cuts largely in place, and Saudi Arabia gave the market an extra boost with unilateral reductions of one million barrels per day in March. The group of oil-producing nations plus Russia is expected to increase supply slightly in May, but the market thinks the rapid drawdown in global supplies will keep the market tight in the coming months.

Risks to the rebound include the new waves of COVID-19 sweeping across globe, especially in India and Latin America. This could slow demand growth in the near term and potentially provide a headwind to higher oil prices. That being said, several analysts still expect oil to hit US\$75 per barrel by the end of the year.

Suncor's production assets represent the largest part of its revenue stream, so another 20% upside in the oil market could drive the share price much higher. Suncor stock trades near \$26 per share at the time of writing. It was above \$40 in early 2020 when oil traded lower than its current price.

Fuel demand impact on Suncor

Suncor's other business units include four large refineries and about 1,500 Petro-Canada retail locations. The new COVID-19 wave hitting much of the world, including Canada, means international

travel restrictions could remain in place through the summer months. This would delay the anticipated recovery in demand for the jet fuel made by the refineries.

In addition, Canadian office workers might not start commuting again until the fall or even the beginning of 2022. The summer driving season could also be a dud if interprovincial quarantine and travel restrictions remain in place.

Another risk to the refining business is the potential shutdown of the [Line 5 pipeline](#), which carries oil through Michigan under the connection point of Lake Huron and Lake Michigan and down to refineries in Sarnia, Ontario. Michigan's governor wants the pipeline to stop operating by May 13. Suncor has said it is making arrangements to supply the refinery in the event of a shutdown. A short disruption would likely have limited impact, but a permanent closure might be a different situation.

Is Suncor stock a buy?

Fuel demand should bounce back by the end of the year and could really take off in 2022. At the same time, there is a chance oil could move above US\$70 per barrel and stay elevated for the next few years. If that's how things are destined to pan out, Suncor stock appears undervalued right now and deserves to be on your buy list.

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