



Suncor Stock: How High Could it Go?

Description

Suncor ([TSX:SU](#))([NYSE:SU](#)) is up more than 50% in the past six months. Investors who've missed the rally want to know if Suncor stock is still [undervalued](#).

Oil price outlook

WTI oil trades above US\$66 per barrel at the time of writing compared to US\$36 last fall. The size and resilience of the surge in oil prices caught many analysts by surprise. Coming into 2021, the general consensus was for WTI oil to average about US\$50 per barrel for the year.

The initial jump came on vaccine hopes. Oil received an additional boost when OPEC+ decided to maintain supply cuts through the first part of the year. Saudi Arabia then cut output by an additional one million barrels per day, providing an extra tailwind.

On the demand side, fuel use is bouncing back faster than anticipated. Airlines are still operating at severely reduced capacity, but people are driving their cars more, as economies begin to open, and business slowly returns to more normal operations.

In its [May 2021 market report](#), the International Energy Agency (IEA) said the oil glut build-up last year has effectively evaporated. Industry oil stocks are now close to their five-year average.

The new COVID-19 wave hitting India and some other countries could slow down the rebound, but the market looks set to accelerate demand through the end of the year.

OPEC intends to boost supply by two million barrels per day through July. This includes the gradual reduction of Saudi Arabia's extra cuts earlier this year. The IEA says additional supply will come from Canada and the North Sea, bumping the increase to 3.8 million barrels per day above the April 2021 level.

Analysts have steadily raised price targets amid the strong recovery. Pundits see WTI oil hitting US\$75 per barrel at some point this year. The most bullish predictions suggest a spike to US\$100 could occur

in the next few years due to the massive investment cuts the industry made in 2020.

Suncor's earnings

Suncor reported solid Q1 2021 results, supported by the sharp increase in the price of oil. Operating earnings for the quarter came in at \$746 million compared to a loss of \$421 million in the same period last year.

The upstream production businesses should continue to deliver strong results, even if oil remains at its current level. Suncor made good progress in reducing costs to boost margins in the past year. Oil sands cash operating costs dropped by 20% compared to Q1 2020.

Should you buy Suncor stock now?

The refining and retail business units should see a strong second half of 2021 driven by rising fuel demand, as airlines return to the skies and commuters start heading back to the office. Longer term, Suncor plans to move into the renewables sector. The company just announced a partnership to build a world-class hydrogen facility that could reduce Alberta's CO2 emissions by two-million tonnes per year.

Suncor trades for close to \$28 per share compared to \$40 per share before the pandemic when WTI oil traded near US\$60 per barrel. Assuming demand for gasoline and jet fuel will eventually return to pre-COVID levels in the next couple of years, Suncor stock appears cheap today.

Volatility should be expected, but investors with a bullish view on oil might want to add Suncor to their portfolios at this level. It wouldn't be a surprise to see Suncor stock hit \$40 by this time next year. If WTI oil moves above US\$75 and stays there, the share price could even take a run at \$50.

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Date

2025/09/11

Date Created

2021/05/13

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