Will Crude Oil Hit $100 a Barrel in 2021?

Description

The year 2021 finally brought respite to energy investors. Crude oil prices breached US$70 levels this week, lifting the already rallying energy sector to new highs. The oil and gas space is one of the best performing areas among broader markets this year. But can it sustain gains? Is US$100 a barrel really in the cards?

Crude oil prices reach a two-year high

Though some experts have been highly bullish and see oil at US$100, it seems a too strong target at the moment. Headwinds like uncertain demand from India, the third-largest oil consumer, will likely limit crude oil's upside. Also, the U.S. easing sanctions on Iran could boost supply in the next few months, weighing on oil prices.

Energy markets are highly driven by supply and demand. When pandemic-led restrictions came to a fore last year, the Organization of Petroleum Countries (OPEC) and its allies cut their output by approximately 10 million barrels per day, balancing the demand-supply equation to some extent. That's why crude oil prices rallied from the negative US$37 a barrel last April to US$71 this week.

The OPEC+ has maintained its stance on increasing the supply very gradually by July. If demand trends in the U.S. and Europe remain encouraging, it may consider boosting supply to benefit from the higher prices.

Notably, higher crude oil prices and returning demand could generate abundant free cash for oil giants. However, many global oil giants have shrugged off increasing production this year. They largely aim to fortify their balance sheets and return cash to shareholders in 2021.

Top Canadian energy stocks for 2021

Canada's largest oil sands producer **Suncor Energy** (TSX:SU)(NYSE:SU) intends to use its free cash to repay debt and for buybacks. The integrated energy titan booked a massive $4.3 billion loss last year amid the pandemic. It trimmed its dividends by up to 55% last year as cash retention became vital. It does not look too aggressive on raising production even if energy demand is returning with full force.

Similarly, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) is not in any haste to increase production. It reported a net loss of $435 million last year and continued to increase dividends last year as well, driven by its relatively stronger balance sheet. However, for 2021, CNQ plans to use the windfall cash on repaying debt and not on capital projects.

Driven by strength in crude oil, Suncor Energy stock has returned more than 110% since the epic crash last year. In comparison, CNQ stock has stood taller, gaining almost 170% in the same period. The **TSX Composite Index** is up 75% since last March.

Interestingly, both of these Canadian energy giants look well placed in the recovering energy markets. These two have their breakeven prices approximately $35-$40 lower than current oil levels, warranting sufficient free cash at the moment. Their leverage ratios indicate a much better picture than their U.S. counterparts. Also, their relatively cheaper valuation suggests more room for growth ahead.

Bottom line

Notably, it seems too early to forecast crude oil at $100 barrel this year. Even if energy markets maintain the ongoing strength, Canadian energy giants can make plentiful cash to replenish last year's dent, which can unlock immense value for shareholders.

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Date
2025/08/24
Date Created
2021/06/02
Author
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