This 3-Year Prediction for Oil and Suncor Energy (TSX:SU) Might Surprise You

Description

In June 2020, Warren Buffett purchased some shares of **Suncor Energy** (TSX:SU)(NYSE:SU), even though the oil company cut the dividend by 55% and suffered huge losses. He knew that oil would return big time and continue to grow for the next 10 years. Now, 10 years is too long a time frame for me to predict, but I will tell you how I think the next three years look for Suncor Energy.

The recovery of Suncor Energy

Suncor Energy is an integrated oil company, which means it does everything from extraction to refining to the distribution of crude oil into petroleum products like gasoline and jet fuels. When oil price rises because of supply constraints, it can sell its oil inventory at a higher price. When oil price falls, demand rises, and it gains from volume.

During the pandemic, oil fell, and so did demand, as planes were grounded and many factories closed down. Also, storing oil was a problem, pulling oil price below the production cost. China, one of the major consumers of oil, hopped on this opportunity. It bought large volumes to have an oil cushion in case of a shortage. The Organization of the Petroleum Exporting Countries (OPEC) asked companies to reduce oil supply to increase the oil price.

As the economy reopens and travel restrictions ease, airlines are seeing a surge in travellers. The world will see a huge pent-up demand for travel in the second half of the year. Moreover, industries are opening up, and construction is gathering momentum. This rising demand will create a shortage in supply and drive oil prices to new highs.

In January, **Goldman Sachs's** global head of commodities research Jeffrey Currie said, "With vaccines being rolled out across the world, the likelihood of a fast tightening market from 2Q 2021 is rising as the rebound in demand stresses the ability of producers to restart production." He proved to be right, as the WTI crude price surged 41.8% year to date to US$68.82 per barrel. The Suncor stock moved in tandem with crude price and surged 43.5% year to date.

The three-year prediction for oil

The oil price has been in a downtrend since the 2016 oil crisis, as the cost of production reduced due to shale gas exploration. Excess supply caused the oil price to fall.

During the pandemic, oil giants like **BP** and **Shell** stated that oil demand reached its peak. As the world moves towards vehicle electrification, oil demand will fall. Hence, major oil producers are shifting their capital spending from oil exploration to renewable energy projects. This will gradually reduce daily production volumes, making the existing oil more valuable. This could drive the oil price to new highs.

Moreover, there is another theory that oil could be in a new supercycle. A supercycle occurs when there is a decade long uptrend in commodity prices due to a structural change in demand. The United States industrialization in the late 19th century and the post-war reconstruction in Europe and Japan in the 1950s created commodity supercycles. India could be at the centre of the current supercycle, as it accelerates industrialization.

Whether or not there is another supercycle, the oil price will rise in 2021 on the back of pent-up travel demand. The question is whether it will stabilize in 2022 or begin a long-term uptrend from industrialization. This will be clear in three years. By 2023, the pent-up demand could normalize, China's oil cushion could ease, and the EV (electric vehicle) impact on oil demand could become visible.

Should you buy Suncor Energy stock?

It is difficult to draw a long-term picture for the oil price. But 2021 is an exciting time for oil companies, as they see recovery and pent-up demand. This is the right time to buy Suncor while it still has a 30% upside to reach the pre-pandemic level.

Moreover, Suncor could announce a special dividend to share the gains it will get from the rising oil prices. It will also shield your portfolio from the negative impact of inflation.

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