Is Suncor a Top Stock to Buy Today?

Description

Suncor (TSX:SU)(NYSE:SU) had a rough ride in 2020, but the energy sector is recovering nicely, and investors want to know if Suncor stock is still undervalued and headed higher.

Oil market

The futures price of oil briefly went negative last year, as global travel shutdowns sent a wave of fear through the industry. Traders worried that storage capacity might run out before producers shut the taps fast enough to adjust to the drop in fuel demand.

In the end, storage capacity handled the glut, and by June, WTI oil was back at US$40 per barrel. It slipped to around US$36 in late October but has been on a tear ever since and currently trades near US$73 a barrel. That's the highest price in more than two years and about 20% above the pre-pandemic price.

Robust demand and tight supplies have fuelled the bounce. Analysts who initially expected oil to average US$50 this year are now adjusting the forecasts upward. Some pundits see oil topping US$80 before the end of 2021 and surging to US$100 in 2022 or 2023.

If oil gets that high, it won't stay there for long. The resulting spike in gasoline prices will make politicians in the United States nervous. High gasoline prices tend to make voters angry, so the White House would likely put pressure on OPEC to ramp up production to bring oil back to a more reasonable level.

That said, it is quite possible we will see oil average US$70-80 per barrel for a few years.

Near-term risks to the market rally include a potential sanctions deal with Iran that could release a wave of supply into the market. OPEC+ might also decide to pump more oil than forecast to take advantage of the high prices.

The IEA says the world is quickly consuming excess stockpiles, and the massive investment cuts that occurred last year could lead to a tight market down the road, even if OPEC and other producers open the taps.

Suncor outlook

Suncor traded above $44 per share before the pandemic, when oil was much lower than the current price. At the time of writing, investors can buy the shares for about $30.

The upstream operations should generate solid profits at current oil prices and the Q2 results might surprise to the upside. If that turns out to be the case, the stock should get a nice boost.

Looking ahead, travel restrictions are easing, and companies are starting to call employees back to the office. This means demand for jet fuel and gasoline should soar in the United States and Canada in the coming months and through next year. That bodes well for Suncor's four refineries that make the fuels and the company's roughly 1,500 Petro-Canada retail locations.

Suncor and its oil sands peers recently announced an alliance to build the infrastructure needed to hit net-zero greenhouse gas targets by 2050. The decision to tackle the challenge together instead of each company making its own individual investments should drive down costs and make the sector as a whole more palatable for investors in the coming years.

Should you buy Suncor stock?

The stock looks cheap right now, especially if WTI is destined to hold the 2021 gains or even move higher. In the bullish oil scenario, it wouldn't be a surprise to see Suncor's stock price take a run at $50 by the end of next year. Some volatility should be expected, but investors with a positive view on oil demand might want to buy Suncor at the current level.

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