



## Should You Buy Suncor Stock (TSX:SU) Right Now?

### Description

**Suncor** ([TSX:SU](#))([NYSE:SU](#)) is up more than 35% this year. Investors who missed the surge are wondering if Suncor stock is still [undervalued](#) and deserves to be on the buy list.

### Oil market

West Texas Intermediate (WTI) oil recently topped US\$75 per barrel. That's 50% above the average price target many analysts forecasted last fall. The size and momentum of the rebound in the oil market this year has even surprised bullish pundits and more gains could be on the way. New estimates see WTI hitting US\$80 before the end of 2021 and calls for a spike to US\$100 in the next two or three years are becoming more common.

#### Risks?

A jump back above US\$100 would start to put the global economic recovery at risk and could drive inflation even higher. Oil is used to make many products, including plastics.

Oil is also the feedstock to make jet fuel, diesel fuel, and gasoline. If Americans start seeing US\$5 per gallon gas at the pumps there will be political pressure to increase global oil supply to bring down prices. OPEC+ would likely respond by opening up the taps and there could be more of an incentive to get Iranian oil back on the market.

That said, the IEA indicated in its June [oil market report](#) that stockpiles built up during 2020 have returned to pre-pandemic levels. Steep cuts to investments in new production could trigger tight conditions for some time. As a result, it wouldn't be a surprise to see WTI oil settle in a range of US\$75-85 per barrel through 2025.

### Suncor operations

Suncor is Canada's largest integrated energy firm. The oil production division is the biggest part of the

company, but Suncor also operates refineries and about 1,500 Petro-Canada retail locations.

At the current oil price, Suncor holds the potential to generate strong margins and profits. The Q1 2021 results gave investors a good indication of how big an impact the jump in oil prices has on cash flow. While a strong Q2 2021 report is expected, the results could actually surprise the upside. Suncor is using the excess free cash flow to reduce debt and buy back stock this year.

Given the strong recovery in the oil market, investors might even see a dividend hike. Suncor slashed the payout by 55% at the start of the pandemic to preserve cash. This is one reason the stock took such a beating. A meaningful boost to the distribution would renew confidence in the stock among dividend investors.

Suncor's downstream operations should [rebound](#) in the second half of 2021. Domestic travel will be busy this summer as people hit the road for vacations. The fall should see a surge in commuters heading back to the office. Airlines are also adding routes as demand for trips recovers, which all bodes well for Suncor's refining and retail businesses.

## Is Suncor stock attractive today?

Suncor trades near \$29.50 per share at the time of writing. This compares to \$44 in early 2020 before the pandemic when WTI oil was around US\$60 per barrel. With fuel demand set to soar in the coming months and oil prices holding comfortably above US\$70 per barrel Suncor stock looks cheap right now.

If you are bullish on oil over the next five years and have some cash to put to work, this stock deserves to be on your radar.

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