



Should Suncor Stock Be on Your Buy List Today?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) recently gave back some gains on a pullback in the price of oil. Investors who missed the rally in the first half of the year are wondering if Suncor stock is now [undervalued](#).

Oil price

At the time of writing, WTI oil trades near US\$72 per barrel. That's down from the 2021 closing high above US\$75. The recent weakness can be attributed to traders taking profits after a massive run from US\$36 per barrel last October. In addition, the UAE and its OPEC peers appear to have resolved a dispute on the timing and sizes of supply increases. The consortium, along with Russia, agreed to make steep supply cuts last year to offset the drop in demand due to the pandemic.

Now that COVID-19 vaccination rates are rising, and countries are beginning to lift restrictions, fuel demand is expected to surge. That provides OPEC with some confidence it can slowly [increase supply](#) without hitting prices.

While vaccination rates are improving, there is still concern that the global economic recovery could be derailed by a wave of new cases caused by the Delta and [Lambda](#) variants. Several countries with low vaccination rates are facing rising outbreaks, and [experts fear](#) unvaccinated people in countries with higher vaccination levels could still fill up hospitals in the fall, potentially forcing new lockdowns.

As a result, volatility should be expected in the oil market over the coming months, but oil bulls still see higher prices on the horizon. Predictions of a run to US\$80 before the end of this year are now common and the more optimistic analysts see a potential surge to US\$100 before 2025. Their reasoning is that hundreds of billions of dollars of investment was shelved last year across the industry. It will take time for capital programs to ramp back up and the expected demand growth could outstrip supply, resulting in tight market conditions, despite the efforts of OPEC and other major producers to boost output.

Suncor stock

Suncor trades near \$26.50 per share. That's up from \$15 last fall but down more than 12% in the past month. The stock has trailed some of its larger peers on the rebound. This might be due to the fact that management slashed the dividend by 55% early in the pandemic.

[Dividend investors](#) had relied on Suncor's stable and growing payout for years. The company didn't cut the distribution during the financial crisis or when oil crashed in 2014. This time, however, the downstream refining and retail assets took a beating in tandem with the production business. There was simply nowhere to hide, and revenues plunged.

Now that oil is roughly double its price from Q4 2020 and fuel demand is rising, Suncor's revenue and cash flow outlook should be robust. The company reported strong Q1 2021 results that indicate how big an impact the rise in the price of oil can have on profits. The Q2 2021 numbers should be even better when they are reported July 28, 2021.

Investors with a bullish view on oil might want to add the stock to their portfolios on the latest dip or boost positions before the Q2 results are released. Management previously said the company will use excess capital to reduce debt and buy back shares this year. The strong rebound in the price of oil through Q2 might lead to a dividend increase in Q3 or Q4. If that happens, investors could flood back to the stock.

Suncor traded near \$44 per barrel before the pandemic when oil traded lower than its current level. As fuel demand recovers to 2019 rates, it wouldn't be a surprise to see Suncor's stock price make up the difference. If you are bullish on oil, Suncor looks cheap today.

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