Should Suncor (TSX:SU) Stock Be on Your Buy List Right Now?

Description

Suncor (TSX:SU)(NYSE:SU) is down nearly 25% from the 2021 high amid a pullback in oil prices fuelled by new COVID-19 variant fears. Investors who'd missed the 2021 surge are now wondering if this is a good time to buy Suncor stock for their portfolios.

Oil market

WTI oil trades near US$67 per barrel at the time of writing. That's down from the 2021 closing high around US$75 it hit in July. The pullback isn't a surprise after the strong rally from the fall of 2020. WTI oil traded at just US$36 per barrel last October.

Recent weakness comes as traders fear that the spread of the Delta variant in China, the United States, and other large oil-consuming countries could delay the economic recovery and slow the rebound in fuel demand. Investors might also be taking the opportunity to book profits after the White House encouraged OPEC to increase supply at a faster pace to drive down oil and fuel prices.

Speed bumps in the post-pandemic recovery are expected and a pullback in the price of oil was anticipated after the stellar run. While more downside could be on the way in the near term, the recent correction is likely a pause before another move higher. Airlines are ramping up routes, and commuters will likely start hitting the highways again in large numbers by the end of the year.

At the same time, energy companies continue to protect cash flow and are just starting to look at raising capital expenditures to take advantage of the rebound in oil prices. Globally, major oil developers shelved hundreds of billions of dollars in exploration and development spending since the start of the pandemic. With ESG pressures mounting on the industry, much of the previously planned spending might never materialize.

As a result, oil bulls predict a potential supply shortage by 2025. If they are correct, pundits anticipate a surge in the price of to US$100 or higher.

Suncor earnings

Suncor reported strong Q2 2021 results that show the company is bouncing back after a brutal 2020. The business generated $2.4 billion in funds from operations in the quarter compared to $488 million in the same period last year.

Suncor is using the 2021 cash windfall to reduce debt and buy back shares. The company bought back 1.5% of the outstanding common stock in the quarter, spending $643 million.

Investors should see the dividend start to increase again in 2022. Suncor slashed the payout by 55% last year. The move surprised many people and has likely contributed to Suncor's underperformance among the large Canadian oil producers this year. Over the long term, however, the focus on debt reduction and stock repurchases right now should pay off for patient Suncor shareholders.

Should you buy Suncor stock now?

Suncor trades near $23.50 per share compared to $31 in June and $44 before the pandemic, when WTI oil actually traded lower than it does today. Ongoing volatility should be expected in the oil market over the coming months and additional downside in Suncor's stock price is certainly possible.

That said, oil bulls might want to start buying the shares at the current level. The stock looks undervalued right now, and a return to the $40 mark wouldn't be a surprise by the end of next year, as the global economy rebounds. In the meantime, you'll pick up a reasonable 3.5% dividend yield with decent dividend growth likely on the horizon.

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