



Suncor Stock: Is This a Good Time to Buy?

Description

Suncor ([TSX:SU](#))([NYSE:SU](#)) has lagged its large peers in 2021, despite a strong rebound in oil prices. Contrarian investors with a bullish view on oil are wondering if now is the best time to buy the stock.

Oil price

WTI oil rallied from US\$36 per barrel last fall to as high as US\$76 this year. A pullback in recent weeks sent oil stocks tumbling, but prices are still at very profitable levels for most producers. At the time of writing, WTI trades near US\$70 per barrel.

Analysts are trying to decide if surging new cases of COVID-19 driven by the Delta variant will hinder the demand recovery. In the coming months, the reopening of the global economy, a return to offices, and rebounding air travel will largely determine how quickly oil demand rises.

At the same time, all eyes are on OPEC+ after their recent decision to stay the course on measured supply increases. In addition, analysts and traders are watching weekly and monthly U.S. storage reports and employment numbers to gauge momentum heading into 2022.

The pullback in WTI from US\$76 to the current price was expected, even amid a strong market. It's possible that the correction is simply a healthy pause before the next surge to the upside. COVID-19 variants and rising cases remain a risk, but improved vaccination rates and the anticipated rollout of booster shots to the general population should enable the steady reopening of the economy in major energy markets, notably the United States, China, and Europe.

Oil bulls see WTI taking a run at US\$100 per barrel again at some point in the next few years. The argument is that demand will outstrip production capacity due to the massive investment cuts made by the industry in the past 18 months. Longer term, the major producers are less energetic about building new large-scale facilities due to [ESG](#) pressures.

Suncor's financials

Suncor's Q2 2021 results showed how profitable the company is when oil trades near the current price. The company generated \$2.36 billion in funds from operations in the quarter compared to \$488 million in the same period last year. Operating earnings rose to \$722 million versus a \$1.35 billion loss.

Upstream production increased to nearly 700,000 barrels of oil equivalent per day. Suncor completed significant planned maintenance work at production and refining sites in the quarter, and finished Q2 with refinery utilization at 94%. This should be positive for the second half of the year, although the company faces some operational challenges at its Fort Hills location.

Suncor is using excess cash in 2021 to reduce debt and buy back shares. The story in 2022 could be a large dividend increase, as management starts to reverse the 55% distribution cut that occurred last year to protect cash flow.

Is Suncor stock a buy today?

Fuel demand remains below comparable 2019 levels, but the gap is closing as travel restrictions ease. Airlines are increasing capacity and commuters are expected to head back to the office starting this fall and in early 2022.

A recent [survey](#) indicates people who historically used public transportation to go to work might be planning to drive when they are asked to return to their desks. The result could be a surge in gasoline demand that is beyond current projections.

Suncor trades near \$24 per share at the time of writing. The stock was as high as \$31 earlier this year and sat at \$44 before the pandemic. Ongoing volatility should be expected, but oil bulls might want to start nibbling at this level.

If oil holds the current price or moves higher through next year, I think Suncor's stock price could easily take a run at \$40.

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