



## Is Suncor Energy (TSX:SU) a Buy at \$32?

### Description

**Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock surged 37% since September. The stock surged 17% between October 28 and November 1, as the oil giant [doubled](#) its dividend. I was expecting the company to grow [dividend](#) next year, but it saw an early recovery, as oil prices reached their 2016 high. This dividend growth came after the company slashed dividends by 55% in May 2020 — the peak of the pandemic. It seems like Warren Buffett exited the stock too early in June.

Suncor stock is trading closer to its 52-week high. The growth numbers are exciting, and they are encouraging you to buy the stock at the current price of \$32.17. But don't get lured by this sparkle, as it is short-lived. Read further as I answer the question, is Suncor Energy stock a buy at \$32?

## Suncor is a cyclical stock in a long-term downtrend

Suncor is a [cyclical stock](#) that is heavily dependent on market forces. The sole business of Suncor is oil and everything related to it from extraction to refining to retail and distribution. Oil is a commodity, which means there is no difference in the product of oil companies. Hence, the oil price is determined by demand and supply. While Suncor can't control demand, it can control supply.

Whenever there is an oversupply (like in May 2020), oil prices fall, and so does Suncor's stock price. This is because Suncor cannot get a higher price for its oil inventory. In May 2020, the oil price was below the cost price at US\$35/barrel. The Organization of the Petroleum Exporting Countries (OPEC) jointly reduced oil supply to bring it in sync with the demand.

Now, oil demand has increased because of pent-up air travel demand. This is driving oil prices to new highs. But this oil supply shortage won't sustain for the long term. Oil companies will increase supply after consulting OPEC to bring it in sync with demand. This back-and-forth balancing of demand and supply will move Suncor stock up and down.

## The oil industry is in a long-term downtrend

While Suncor is running on cyclicity, it is in a long-term downtrend. If you look at its five-year returns, the stock never fully recovered from its 2008, 2018, and 2020 dips. This is because the overall oil industry is in a long-term downturn. Oil is not an environment-friendly source of energy. Oil giant **BP**, in its energy outlook, stated that oil demand has reached its peak. Major economies worldwide are switching to renewable sources of energy. Transportation is the biggest source of CO2 emissions. Hence, countries are shifting to electric vehicles.

Oil stocks are not buy-and-hold stocks for the long term.

## Is Suncor stock a buy at \$32?

Is Suncor stock a buy near its 52-week high? The answer is no. The stock is close to its cyclical peak. No one can predict when the stock will reach its peak and begin its downtrend. If you buy the stock at \$32, you would be stuck with an overpriced stock. Even if you are buying it for the dividend, you are at a loss. When the stock price falls, it will negate the dividend growth, leaving you in negative.

I would suggest waiting for the stock to fall. When the stock price falls, its dividend yield will surge. This way, you can get a higher yield and benefit from capital appreciation whenever the next growth cycle happens.

If you already own the stock, keep holding it, as the stock is yet to begin the downtrend.

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