1 Top Canadian Energy Stock to Buy on a Pullback

Description

Oil prices fell this week and more downside could be on the way in the near term. Energy stocks could give back some gains, giving investors who missed the rally a chance to buy top Canadian producers at undervalued prices.

Oil market outlook

The price of oil gave back some gains in recent days. Traders are waiting to see what the U.S. government will do to increase supply and reduce prices.

President Joe Biden is in a tight spot. The White House tried to get OPEC+ to speed up its planned supply increases, but the consortium said it intends to stay the course on its current schedule, indicating the plan provides stability in the market and will bring global supply back to a surplus position in 2022. High costs at the pump are bad for ratings. At the same time, the U.S. is trying to support reductions in greenhouse gasses. Encouraging more oil production contravenes that mandate.

Whether it is a release of U.S. strategic petroleum reserves (SPR), an end to the requirement to combine gasoline with biofuel, or reducing U.S. exports, the U.S. government will likely make a move in the near term.

The result could be a sharp drop in the price of oil. West Texas Intermediate (WTI) trades near US$80 per barrel at the time of writing. A pullback to US$70 wouldn't be a surprise in the coming weeks.

Why buy top energy stocks on a dip

A correction would give investors a chance to buy top Canadian oil and gas producers at a discount.Oil demand in 2022 and the following two or three years should be robust. At the same time, themarket might be overestimating the ability of OPEC+ and other producers to meet the demand surge.A lack of investment in exploration and development in the past two years could lead to a supplysqueeze by 2025, even if the taps are wide open.

As such, the medium-term outlook for oil prices should be positive.

If WTI oil simply averages US$70-$80 per barrel, oil companies will continue to generate strong profits and raise their dividends.

Suncor

Suncor (TSX:SU)(NYSE:SU) underperformed its peers in the past year, but the strong Q3 2021 results suggest the company is back on track. Funds from operations came in at $2.6 billion and the company reported $1.04 billion in operating profits for the three months.

The refining and retail businesses are benefitting from the surge in fuel demand and should deliver strong revenue and profits in 2022. Suncor's production costs have declined in recent years and operational issues at two of its oil sands sites are being fixed.

The board raised the dividend by 100% when the Q3 results came out. This brings the payout back to the 2019 level. Suncor is also repurchasing up to 7% of its outstanding shares under the current share buyback plan and is reducing debt faster than expected.

Investors who buy the stock at the current price near $32 can pick up a 5.25% yield. A dip below $30 should be viewed as an opportunity to add to the position.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News

PP NOTIFY USER

1. arosenberg
2. aswalker

Category

1. Investing

Date
2025/07/26
Date Created
2021/11/13
Author
aswalker