



3 Ways to Make Money From Suncor Energy (TSX:SU) Stock

Description

The oil price fell below \$80 for the first time since January, pulling the energy-heavy TSX Composite Index down 5.3% in a week. **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock slipped over 18% this month to \$37. This level was last seen before the Russia-Ukraine war.

Don't mistake Suncor stock with growth stock

But do not mistake Suncor with a growth stock. It is a cyclical stock that pays [dividends](#), which means it has a limited upside. The company aims to grow its dividend at a 25% compounded annual growth rate (CAGR) between 2021 and 2025 to make up for the 2020 dividend cut. The company [increased](#) its dividend by 50% in October 2021 and 12% in May.

Suncor stock is currently riding the oil price rally, which could subside in the long term. Hence, I don't suggest buying this stock if you are looking for capital appreciation in the long term.

But you can make money on this stock in the short and long term by implementing three strategies.

Playing the Suncor's stock price momentum

Suncor stock is sensitive to oil prices. Oil prices fell as a 75-basis-point interest rate hike aggravated recession fears. But oil price depends on the global demand-supply balance. There could be supply shocks if the below four factors play out:

- The European Union's [embargo](#) could put a complete ban on Russian oil by December. It would increase Europe's dependence on other oil suppliers.
- The 180 million barrels of oil from the U.S. Strategic Petroleum Reserve (SPR) to Europe eased oil prices after June. But SPR's September inventory level decreased to 427 million barrels, the lowest since 1984. For the first time, SPR oil inventory fell below the commercial storage, and the U.S. Department of Energy has no plans to refill SPR anytime soon. It hints that the U.S. oil support to Europe could weaken in the coming months.

- The Organization of the Petroleum Exporting Countries (OPEC) continues to see a production shortfall, as years of underinvestment in oil and gas development reduced oil production capacity.
- Meanwhile, China is reopening its economy after another wave of lockdown, which could boost oil demand.

The only hope is that steep interest rate hikes push the global economy into a recession and pull down oil demand. A delay in the slowdown of oil demand could lead to an oil supply shock.

All these factors hint that oil prices could move in the US\$80-US\$100 range, depending on new developments in the geopolitical scenario. Hence, Suncor stock could also hover in the \$35-\$42 range. You can buy the stock at \$36, sell it for \$41 and make a short-term gain of 14%.

Locking in higher dividends for a recession

If momentum investing is not attractive, you can buy Suncor stock while it trades at a 31% discount from its 52-week high and lock in a 5.08% dividend yield. Suncor Energy has a strong history of paying quarterly dividends and growing them at a CAGR of 17.3% in 14 years, with one instance of a dividend cut.

Suncor managed to raise dividends all these years by reducing its cost of production to US\$35/barrel. While Suncor is nowhere close to the production cost of OPEC and Russia, the strong oil export volumes between Canada and the United States keep Suncor's cash flows coming.

Until the oil price falls below US\$35, Suncor could continue to give incremental dividends. Now is the time to lock in a 5% dividend yield and a dividend CAGR of over 10%. Suncor stock can earn you dividend income, even in a recession.

Harnessing the power of compounding in an energy downturn

You can also use Suncor stock's incremental dividend to harness the power of compounding through a dividend-reinvestment plan (DRIP). But I suggest you opt for Suncor's DRIP when energy stocks head towards a downturn as the recession slows oil demand. And do so in your Tax-Free Savings Account ([TFSA](#)).

The DRIP would reinvest the dividend amount quarterly to buy more shares of Suncor. As the stock price would be in a downtrend, DRIP could buy more shares, compounding your numbers. After 20 years, you would have a significant number of Suncor shares that generate income.

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pujatayal

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