



## If I'd Invested in Suncor Stock at the Start of 2022, Here's What I'd Have Now

### Description

**Suncor Energy** ([TSX:SU](#)) stock is riding the bulls, while bears chase the rest of the TSX Composite Index. Suncor moved from being a neglected stock in 2020 to a big bull in 2021 and 2022. This transition was due to the tight global oil supply. Oil was trading close to US\$92/barrel in February, driven by demand recovery from the pandemic. On February 24, Russia invaded Ukraine and aggravated oil supply issues, pushing the oil price to as high as US\$127.

### How much is a \$2,000 investment in Suncor worth now?

If you'd invested \$2,000 in Suncor at the start of 2022, your investment is now \$2,812 (\$730 in stock price appreciation and \$82 in dividend income). As I say this figure, your Suncor investment might be at a different level, given that the stock price moves 10-20% in a few days.

An \$812 return turns into a 40% return in nine months. It has not only beaten the TSX Composite Index (down 10%) but also the 40-year high inflation of over 7%. But is Suncor a [long-term investment](#)?

### Get exposure to oil price volatility with Suncor

Suncor is a cyclical stock that moves in tandem with the most used global commodity, oil. The global energy crisis has put the oil supply in a tight spot. Suncor cannot control oil prices, but it can control production costs. Over the years, it has reduced production costs to US\$40/barrel. As long the oil price stays above US\$40, Suncor stock remains stable, and the company reports positive cash flow.

The oil price would likely hover in the US\$80-US\$100 range in 2022 and 2023, with some outliers of US\$127 or US\$76. These outliers would occur due to external forces shifting the thin balance of supply and demand. For instance:

- Oil prices jumped as high as US\$127 in June after Europe banned Russian oil. The Organization of Petroleum Exporting Countries (OPEC) was unable to fill the gap, creating a supply crunch. At

this point, Suncor stock hit its 52-week high of \$53.6.

- Oil prices eased to US\$76 in September, as President Joe Biden released oil from the U.S. Strategic Petroleum Reserve (SPR), and the recession slowed oil demand. At this point, Suncor stock fell below \$37.
- Now, OPEC+ is [reducing oil output](#) to keep oil prices high, pushing West Texas Intermediate crude to over US\$88. Suncor's stock price has jumped more than 20% in fewer than 14 days.

## Investment strategy for Suncor Energy stock

An equity investor cannot invest in oil directly. One way to directly trade in commodities is through futures and options. But Suncor gives you exposure to oil price volatility with the ease of equity investing while also paying quarterly dividends. You can have a portfolio of Canadian [oil stocks](#) to benefit from oil prices.

For instance, **Cenovus Energy** ([TSX:CVE](#)) stock is more volatile than Suncor, as the former's production cost is higher. But it also gives better capital appreciation. So, if you invested \$2,000 in Cenovus, your returns would be \$1,170 (\$1,140 in capital appreciation and \$30 in dividends).

In the short term, Cenovus might look better, but the sharper it rises, the steeper it falls. Moreover, Cenovus's dividend yield of 1.64% is not attractive in front of Suncor's 4.17% yield. For \$26 a share, Cenovus gives an annual dividend of \$0.42. Whereas, for \$46 a share, Suncor gives four times more dividend of \$1.88.

## How to profit from oil stock volatility

A responsible way of profiting from cyclical oil stocks is investing a higher ratio in less-volatile dividend stocks and a lower ratio in volatile stocks. So, if I were to invest \$2,000 in oil, I would invest 50% in Suncor, 20% in Cenovus, 20% in **Imperial Oil**, and 10% in the **iShares S&P/TSX Capped Energy Index ETF**.

Don't buy these stocks now. Wait for the oil price to fall below \$82 before investing in energy stocks. Hold Suncor and sell the other volatile stocks and exchanged-traded funds when oil reaches \$100. This way, you can get the best of both stock price appreciation and dividends.

### CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

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#### **PP NOTIFY USER**

1. kduncombe
2. pujatayal

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#### **Date**

2025/08/13

#### **Date Created**

2022/10/13

#### **Author**

pujatayal

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