



Will Suncor's Stock Price Soar in 2023?

Description

Suncor Energy ([TSX:SU](#)) continues to lag its peers after the big rebound in the share prices of [oil stocks](#) following the pandemic rout. Contrarian investors seeking decent dividends and attractive total returns are wondering if Suncor stock is now [undervalued](#) and poised to surge in 2023.

Oil market

West Texas Intermediate (WTI) oil is down recently and currently trades near US\$74 per barrel. This is well below the 2022 high that saw the price of crude oil top US\$120 but still a very profitable level for oil producers.

The second half of 2022 saw oil trend steadily lower with intermittent short and sometimes sharp rallies, as traders reacted to ongoing COVID-19 lockdowns in China and mixed messaging on the threats of a potential global economic recession in 2023 or 2024.

Additional volatility is expected, but some of the 2022 unknowns will get sorted out in short order. China has abandoned the zero-covid policy. Analysts broadly expect the reopening of the Chinese economy to drive as much as 50% of the global demand growth for oil in 2023.

At the same time, airlines continue to ramp up orders for new planes to meet rebounding travel demand and companies are increasingly calling workers back to the office. These developments will boost fuel demand considerably through 2023 and into 2024. On the commuting side, the demand for gasoline could top 2019 levels, even with hybrid work arrangements. People who are now required to be in the office for two or three days per week are more likely to drive than when they previously used public transport before the pandemic. Commuters are already complaining about having difficulty finding parking spots. In addition, the exodus to the suburbs that occurred over the past three years means more people will have to hit the highways to get to work.

On the supply side, the oil industry has limited ability or incentive to boost production. Cuts to capital programs in 2020 and 2021 reduced the potential for firms to increase output in the next few years. Pressures to meet net-zero emissions targets are going to restrict investment in new projects. Instead,

firms are happy to spend enough to maintain production and return excess cash to shareholders.

With demand rising and limited scope for meaningful output increases there is a chance that oil could take another run at US\$100 before the end of this year.

Is Suncor stock a buy?

Suncor trades for close to \$44 per share at the time of writing. That's pretty close to where the stock price sat before the pandemic. Many of its peers, however, are as much as 100% higher than their prices in early 2020.

Suncor is monetizing non-core assets and has reversed the dividend cut it made in the early days of the pandemic. In fact, the current distribution is at an all-time high and more gains should be on the way. Suncor's integrated business model, which includes production, refining, and retail assets should serve the business well as fuel demand continues to recover.

Investors should expect a bumpy ride, but the stock appears attractive today if you are of the opinion that oil is indeed headed back to US\$100 at some point in the next 12 months. At the current share price, Suncor offers a 4.7% dividend yield, so you get paid well to wait for the rebound.

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