This 1 Top Oil Stock Could See Growth in 2021

Description

After a turbulent week in politics, it's easy to overlook some of the positives that the New Year has already ushered in. Energy investors nervously eyeing a space dominated by pronouncements of peak oil will no doubt have been cheered by Saudi Arabia's surprise production cut commitment, for instance. Analysts had generally assumed that OPEC+ would be unwilling to walk back oil manufacturing in 2021. Oil prices climbed 5% on the news.

The year that oil stocks rebound?

Jim Cramer's "oil is tobacco" pronouncement is pretty close to the mark. However, the biggest oil stocks such as **Suncor Energy** (TSX:SU)(NYSE:SU) are unlikely to decline much further in 2021. This is due to several factors. First, oil still constitutes a considerable proportion of the world's energy mix. Second, the biggest oil manufacturers are in a prime position to capitalize on renewables, and are, in fact, already repositioning for sustainable alternatives.

Given the dire circumstances that led to last year's oil crash – an unprecedented economic quagmire that saw oil briefly trading negative – 2021 can only be an improvement. At least, that's the mainstream expectation. This is because the consensus view sees an end to the pandemic and an eventual market recovery. To some extent, a recovery is baked in to the markets – though not with oil. And that constitutes a third factor in an oil recovery thesis.

Indeed, despite Suncor looking at annual earnings growth of 83%, its estimated returns are negative by around 50% over the next 12 months. This dichotomy could take pundits by surprise later in the year if demand destruction abates to any appreciable degree. It is also worth noting that Suncor is engaged in developing a renewables asset portfolio, adding risk-lowering diversification and a green economy play to a tentative buy signal.

A blue-chip stock primed for improvement

Suncor is a prime case study for oil investors. This company is coiled like a spring, ready to rebound at the first sign of a lasting economic recovery. While such a scenario seem maddeningly beyond reach this year, the groundwork has been laid for a Suncor breakout. Consider a dire +70% discount off fair value, somewhat mismatched with the potential for 80% annual earnings growth.

Of course, this name is not without risks. Detractors may point to a balance sheet let down by high levels of debt, for instance. A negative payout ratio arguably undermines faith in a 3.6% dividend yield. However, a debt to equity ratio of 0.43 could certainly be worse. And by three years, Suncor's distribution coverage is projected to be around 55%. For loyal shareholders, then, Suncor could prove to be a diamond in the rough.

In summary, investors may still opt to view oil stocks with caution. Depending on one's personal exposure to the embattled industry, though, long-range portfolio holders should get ready to buy the dips and trim the rips. Suncor investors are likely to find the company at a crossroads this year. However, at the very least, long-term oil bulls are likely to see some small-to-moderate buying opportunities if volatility continues in the near-term.

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Date
2025/07/21
Date Created
2021/01/09
Author
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