This Warren Buffett-Owned TSX Stock Is Getting Pummelled on the China Coronavirus Outbreak

Description

Oil prices have been plunging amid the frightening news of the China coronavirus outbreak, which is seen as a potentially severe threat to global demand.

Many expect that China's appetite for oil will be curbed substantially as a result of the recent virus outbreak, given restrictions in travel and commerce. There's no telling how bad the outbreak of the deadly Novel coronavirus (nCoV) will get, so further weakness may lie ahead – and not only for isolated industries, or Chinese companies. As nCoV spreads, the broader market may feel the effects.

Warren Buffett's preferred play on the Alberta oil sands, **Suncor Energy** (TSX:SU)(NYSE:SU), is an example of company that has felt the effects as its price fell around 6% over the past two weeks. Naturally, a deadly outbreak is frightening, for many reasons. In terms of its impact on markets, investors need to do their best to avoid making decisions based on emotion, whether we're talking about buying or selling.

Indeed, Buffett sees Suncor as one of the few swimmers that were still wearing trunks when the tides went out in 2014. Suncor's integrated operations allowed it to thrive as its peers went down, and its healthy balance sheet allowed the company to take advantage of opportunities as they arose.

The company has navigated through some tough times in the past, but an outbreak is an exogenous (external) concern that few investors have likely dealt with in their investment careers. It's not just another event that causes lower oil prices, like an increase in production. It's a horrifying and unpredictable event that one shouldn't attempt to trade the outcome of.

While Suncor is arguably the best-positioned to ride another downturn in oil prices as a result of a devastating exogenous factor, I do think investors ought to resist the urge to try to predict the outcome of the nCoV outbreak. It's just not possible and reacting to the devastating news is nothing more than speculation.

What happened to China's economy with SARS?

At the time of writing, the nCoV isn't as widespread as the outbreak of SARS was during its peak, but that doesn't mean it doesn't have the potential to be as destructive to the Chinese economy as SARS was in 2002–03.

During the SARS outbreak, China's economy ground to a halt as consumer spending plunged. The prices of various commodities essential to China's economic growth, including oil and industrial materials, also fell dramatically. Looking back, the economic impact of SARS wasn't as long-lasting as most feared, as the global epidemic was eventually stopped in its tracks, with zero cases of SARS infections in 2004. And while China eventually went on to stage a recovery, in the heat of the moment, it seemed as though the SARS outbreak had the potential to become much worse given the horrifying fatality rate.

I don't think it's wise to assume that this event will necessarily unfold in the same way. According to former FDA commissioner Scott Gottlieb, the Wuhan coronavirus is more contagious than SARS, but less severe. This may sound like good news, but it may in fact make the virus harder to eradicate, even with the better technologies available now than in 2002–03

Foolish takeaway

While Suncor's management has done a great job of protecting its shareholders from harsh industry conditions in the past, the barrage of news on nCoV may trigger a wave of panic selling that could bring Suncor and other affected stocks back to potentially multi-year lows. Don't trade the pandemic because odds are you'll be wrong.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/19
Date Created
2020/01/27
Author
joefrenette

Footer Tagline