Suncor Energy (TSX:SU) Stock in 2020: What Will Happen?

Description

Suncor Energy (TSX:SU)(NYSE:SU) had a wild 2019.

At the start of the year, the energy sector was still recovering from a sudden plunge in regional pricing due to pipeline constraints. Then Warren Buffett appeared, snapping up more than 10 million shares of Suncor close to multi-year lows. Oil prices surged in the back half of 2019, surpassing US$60 per barrel.

Throughout all of this, what happened to Suncor stock? Shares ended the year roughly flat. So much for a wild 2019.

Everything could change in 2020. Buffett is still holding the stock, and many of Suncor's strengths are more valuable than ever. Whether oil prices rise or fall, the company could capitalize. Yet sizable risks remain. What will happen to Suncor stock in 2020?

Here's the deal

Suncor is the tale of two stocks.

Here's what to like. As one of the largest integrated oil companies in Canada, Suncor has a huge advantage in controlling the entire supply chain. It not only explores and produces oil but also owns the pipelines for transportation, the refineries for processing, and the infrastructure for distribution and marketing. It really is a one-stop shop.

This integrated business model is why Suncor stock has outperformed nearly all of its competitors since 2014. Refining margins often run counter-cyclical to oil prices, so when oil prices fall, refinery profitability rises. That's a huge advantage to have — one that offsets regular market volatility.

In addition, pipeline capacity constraints led to a 50% drop in regional pricing in late 2018. Controlling its own pipelines allows Suncor to sidestep the turmoil completely.

Here's the catch: Suncor shares have outperformed on a *relative* basis, but all of these advantages haven't produced attractive *absolute* returns for the stock. Over the past 12 months, shares have fallen by around 10%. That's better than nearly every competitor, but it's not much of a consolation for burned investors.

The reason is simple: fossil fuels may ultimately produce zero total returns for investors. "Tar sands will be stranded assets," notes Jeremey Grantham, co-founder of $100 billion asset manager GMO. "They won't get their money back." That's bad news for Suncor, which operates some of the largest oil sands projects on the planet.

Even pundits like Jim Cramer are skeptical of the long-term promise of fossil fuels when it comes to investor returns. "You can tell that the world's turned on them, and it's actually kind of happening very quickly," he said in February. "You're seeing divestiture by a lot of different funds," he continued. "I'm done with fossil fuels. They're done. We're in the death knell phase."

Those are some pretty strong words, but with the cost of renewable energy falling on an annual basis, and governments and populaces pushing back against fossil fuel usage, capital markets are increasingly hesitant to prop up traditional energy producers. The fight will surely get harder and harder in the years to come.

How to invest

Suncor stock is cheap, trading at 13.3 times 2020 earnings with a 4.3% dividend yield. But sometimes, cheap stocks are cheap for a reason. Based on expected earnings for 2021, the stock trades at just 13 times forward earnings. That implies nearly zero growth over the next two years.

Suncor may have one of the best asset portfolios in the industry, but that won't protect it from an industry in secular decline. Take a look at other dying industries like coal or newspapers; turning a long-term profit is exceptionally difficult.

This upcoming year may prove fruitful for investors, but the multi-year picture is bleak. When it comes to cheap stocks, this isn't one to bite on.

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Date
2025/06/30
Date Created
2020/02/23
Author
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