Market Crash: Should You Buy Suncor Energy (TSX:SU) Stock Now?

Description

The stock market crash on March 9, 2020, will certainly be one that contrarian investors remember.

A steep plunge in world oil prices sent the Canadian energy sector into a freefall. **Suncor Energy** (TSX:SU) (NYSE:SU) saw its share price drop 18% by the time the trading day concluded. Weaker oil producers with sensitive balance sheets lost as much as 50% of their market values.

What happened?

Oil prices had already been under pressure due to the outbreak of the coronavirus. In early January, West Texas Intermediate oil traded above US$63. The spread of the coronavirus in China started to hit oil prices as traders reduced their expectations for the country's demand for oil. The economic impact is still unknown, but weaker oil usage is anticipated. Closed factories, empty highways, and cancelled flights are just part of the demand picture.

Large outbreaks in other countries have increased the risk of a global recession. By March 6, WTI oil was down to US$42 per barrel.

Saudi Arabia and Russia

A weekend meeting between OPEC members and Russia failed to result in an agreement to reduce supplies in order to prop up oil prices. Saudi Arabia announced it would ramp up output and cut its price. This triggered the rout that occurred March 9. The price of WTI oil fell the most since 1991, ending the day near US$31 per barrel.

Some pundits predict the price could go as low as US$20 before the end of the year. Others suggest Russia and Saudi Arabia will quickly find an agreement to support the market.

Should you buy Suncor?

Suncor is Canada’s largest integrated energy company. It is best known for its oil sands and offshore oil production, but the company also owns four large refineries and operates about 1,500 *Petro-Canada* service stations. Low oil prices hurt margins on the production side, but they also reduce input costs for the downstream operations.

Suncor’s refineries make jet fuel, gasoline, diesel fuel, and asphalt. Demand for jet fuel is going to fall in the near term. An anticipated fiscal program from the Canadian government could include significant funds for new roads and highway upgrades. This would potentially help asphalt sales.

Historically, Suncor has used challenging times to acquire attractive assets at very cheap prices. The rout is certainly serving up some interesting opportunities, especially in the oilsands sector. It wouldn’t be a surprise to see Suncor announce a string of deals in the coming months and investors should benefit over the long run, if that happens.

At the time of writing, Suncor’s share price is just above $27.50. That puts the dividend yield at 6.75%. The company has raised the payout steadily for years, so investors should be comfortable with the security of the distribution. Suncor has a strong balance sheet and can ride out a period of turmoil.

Pipeline challenges remain an issue for the industry. However, Trans Mountain appears to be moving forward and Keystone XL could also be completed. This would add important capacity for Suncor and its peers in the coming years.

Suncor traded as high as $45 in January, so the upside potential is significant once the market settles down. Volatility should be expected in the near term, but contrarian investors might want to consider the stock today. Suncor appears oversold.

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