Market Crash 2020: Huge Buy Signal in 1 Top Stock

Description

The one-two punch of the oil price war and the coronavirus has crushed shares of **Suncor Energy** (TSX:SU)(NYSE:SU). As of this writing, the stock is trading at $17.47. That's down 62% from its 52-week high of $46.

I believe at this price, Suncor is a great long-term buy.

Suncor hunkers down for the long haul

On March 24, Suncor slashed its 2020 capital-spending expectations by $1.5 billion — over 25% of its previous spending guideline. The company now anticipates it will spend $3.9 to $4.5 billion this year.

Suncor, Canada's second-largest crude producer, plans to reduce its total operating expenditures across the business by more than $1 billion compared with $11.2 billion of expenditures in 2019.

The company also cut its 2020 production outlook. The new range is 740,000 to 780,000 barrels of oil equivalent per day (boe/d). The previous forecast had Suncor producing 800,000 to 840,000 boe/d.

Suncor is clearly hunkering down for the long haul. As CEO Mark Little noted, "We are adjusting our spending and operational plans to be prepared in the event the current business environment persists for an extended period of time."

Outlook grim for short term

These moves come as the short-term outlook for oil production is grim. As the global oil surplus has been building, producers have been slashing spending and trimming output.

Given the current economic outlook, these cuts are not unexpected. Other companies, such as **Cenovus Energy**, **Apache**, and **Occidental Petroleum**, are following suit and cutting their capex and production guidance for the year.

Not only is the coronavirus pandemic wreaking havoc on demand for oil, but Saudi Arabia is ramping up oil production in a price war with Russia. This combination of bad news is sending global oil benchmarks to their lowest prices in almost two decades. Year to date, the price of crude oil has dropped over 60%.

Heavy Canadian crude, which usually trades at a discount to U.S. West Texas Intermediate oil, has been pushed to record-low levels. Last week, Canadian crude tumbled to around $9 per barrel — more than $15 below the U.S. benchmark.

The problem with production has been compounded as several of Canada's oil sands producers were required to suspend maintenance activity, thereby clogging the market with potential surplus supply. Suncor was one of these producers.

Suncor is not just an oil producer

While it's tempting to look at Suncor only for its oil production value, let's not forget that Suncor owns a network of more than 1,500 Petro-Canada retail and wholesale outlets across Canada. In the U.S., Suncor operates a network of retail sites under the Shell and Phillips 66 brands in Colorado.

As travel for business and pleasure has been upended over the past few weeks, demand for products at Petro-Canada stations has come to a screeching halt. This bad news will certainly affect Suncor's bottom line. However, business at Suncor's Petro-Can stations should resume once the coronavirus has been contained and North America returns to normalcy.

The bottom line

While Suncor's current dividend of 12% looks enticing, dividend cuts in the oil and gas industry can be expected. Don't buy Suncor for its juicy dividend; instead, consider the company for its long-term potential.

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