Market Crash: Should You Buy This Oil Giant?

Description

It was certainly a table-pounding time to buy steady, non-cyclical stocks a mere few days ago. Prices on utilities, banks, and telecoms were trading at all-time lows. Finally, after over a year of waiting, it was possible to find deals on core stocks.

It is a more difficult environment to look at economically sensitive companies like commodity stocks. Oil companies, for example, have long been cheap, making them out to be excellent deals in even a slow-growth environment. After the recent collapse in oil prices, is it a good time to get in? If so, what should you buy?

The dilemma

I had been pretty positive on the junior producers for quite some time. They were cheap, their dividends were great, and there was serious upside potential, it seemed. Everything seemed to be moving in the right direction, with oil prices increasing and economies growing, albeit slowly.

Well, it turns out cheap stocks certainly can get cheaper. The one-two punch of the coronavirus and the angst taking place with OPEC has absolutely decimated prices and oil demand. These were black swan events of epic proportions, and oil investors got hammered. If this isn't an argument for diversification, I don't know what is.

The only stock to buy right now

This is not to say there isn't value in the sector. Stocks are trading at very low valuations still and likely have been oversold. I'm sure there are people out there who will make a lot of money on junior producers someday.

That being said, with the prices of stocks today, you would be best served only buying **Suncor Energy** (TSX:SU)(NYSE:SU). Why take on the vastly greater risk of a junior producer when you can own Suncor? It has a better yield, a strong balance sheet, scale, and diversified business.

At the time of this writing, Suncor has a yield of almost 10%. That yield is incredible, especially considering the fact that this company has continued to grow its dividend, even in difficult situations. The most recent increase amounted to a growth of 11% earlier this year. I can't guarantee the dividend will be safe in as dire a situation as we face today, but it is more likely to hold than that of a smaller company.

It also has a business model that is far more comprehensive than that of a smaller producer. It is an oil producer with operations worldwide, such as at home in Canada and as far as Norway and Syria. It operates gas stations like Petro-Canada. It even has biofuel facilities and wind power farms.

The bottom line

For a long time, energy stocks have been the only game in town when it came to finding value in the market. Over the past few weeks, stable utility stocks, banks, and telecoms had come down to the point where I would rather focus on quality dividend payers rather than more volatile commodity stocks. I always believe that it is important to take advantage of the rare times to buy quality stocks.

That being said, Suncor is an excellent stock that is trading at a ridiculously low price. It has had a decent bounce in recent days but remains attractively priced. At this point, if I were to take a chance on a producer, it would have to be Suncor. It's big, has a good balance sheet, a diversified business model, and a great dividend.

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