



## Should You Buy Suncor Energy (TSX:SU) for a Massive Correction to the Upside?

### Description

Oil stocks have been completely [slaughtered](#) over the last few weeks. The breakdown of OPEC+ and the catastrophic implosion in the price of Canadian crude has left some of the most resilient players in the Albertan oil patch in a world of pain.

**Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), Warren Buffett's preferred way to play the oil sands, is now down over 70% from its 2018 high despite being one of the most well-capitalized integrated energy behemoths in the oil patch.

Suncor's integrated operations have allowed it to hold its own relative to its peers as the tides went out on in 2014. But the recent Saudi-Russia oil price war has taken the oil industry to unfathomable new depths.

With West Texas Intermediate (WTI) prices at around US\$20, the worst fears of many Canadian energy investors are starting to become a reality. To make matters worse, the rise of environment, social, governance investing trend will serve as a perpetual headwind that will stick around, making it tough to justify investing in Canadian energy amid one of the worst shocks in recent memory.

Foreign investors have been throwing in the towel on the Canadian oil patch in droves over the last few years. Should oil continue its tumble into the abyss, it's not too far-fetched to consider a scenario where the last batch of remaining investors are looking to abandon their oil investments for good.

There's no question that oil sands operations are ridiculously expensive, and most of them are going to become uneconomical should US\$20 WTI linger on for longer.

While many junior players will stand to go belly up in this type of environment, investors shouldn't lose faith in their higher-quality energy stocks, especially if they've already suffered substantial losses.

## What can go *right* for the Albertan oil patch?

The US\$20 WTI environment could prove to be short-lived, especially when you consider the main combatants in this price war are already starting to feel a bit of pressure. Moreover, the U.S. could make ending the oil price war a top priority after the [coronavirus crisis](#) is dealt with, as it looks to make moves to maintain its long-term energy independence.

That's not to say that a US\$20 WTI environment can't stick around for many more years, though.

In a lower for longer environment, bankruptcies are bound to happen in the oil patch. But I like to see the current environment as a pause and not a complete abandonment of the Albertan oil patch.

Many firms like Suncor are going to survive this hideous environment and could stand to rise out of this whole ordeal stronger.

## **Why Suncor stock isn't uninvestible — even at US\$20 WTI**

At this juncture, all of the oil producers, even the best-in-breed ones like Suncor, look uninvestible. The stock sports an 11.3% dividend yield, which, while safer than almost any of its peers in the space, will come under due pressure the longer oil stays at these depths.

In any case, I do see Suncor stock's dividend as safe for now, as the company's downstream operations are still capable of generating ample amounts of steady cash flow.

Moreover, the shareholder-friendly management team is likely to do everything in their power to keep their dividend promise to investors amid the horrific energy environment that seems to be getting worse by the day.

Suncor's growth profile will be stunted in this kind of environment, as it won't be able to fully turn on the taps to some of its promising projects given the capex required. The company is cutting its capital budget by around 25% for 2020 as it looks to reduce production and batten down the hatches.

Suncor will face pressures from all ends (especially on its margins), but I still think it's tough to pass on Suncor stock at today's unprecedented valuations.

## **Foolish takeaway on Suncor stock**

Suncor is going to survive this ordeal — and so too will its massive dividend (at least over the intermediate-term).

The stock trades at 2.9 times enterprise value/EBITDA and 0.6 times book, making Suncor stock one of the most compelling deep value plays out there for patient investors willing to wait (potentially years) for a recovery.

Warren Buffett saw something special in Suncor, and I think he's more inclined to add to his position than subtract after the recent turmoil in the stock.

Stay hungry. Stay Foolish.

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