



## Market Meltdown: Suncor (TSX:SU) Could Take 10 Years to Recover

### Description

“The world has come to a halt due to the coronavirus.” It’s not a true statement — yet. But the way things are moving (or not), the situation could become even bleaker fairly soon. One of the things that have suffered the most during this pandemic is transportation. Roads are empty, railways are less crowded, and aircraft are grounded.

But apparently, the two major players in the oil market, Russia and Saudi Arabia, felt that an already low demand wasn’t a crushing enough blow to the market — and decided to deal with another one.

The oil war between the two has brought down the West Texas Intermediate (WTI) crude price down to a price of US \$21, which is ironically a step up from the last week’s prices — and one-third of the trading level seen in December 2019.

Has the oil sand giant, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), been brought to its knees yet? Or is there still a fight left in the largest oil sand company in the world?

### Oil sand or quicksand?

Up until two weeks ago, analysts were wondering whether Suncor could survive the US \$30 price per barrel benchmark for long. After all, the company went through something similar in 2016 and still came ahead.

But the current situation might have evaporated that optimism. As the US \$30 per barrel price now seems like the good old days, compared to what we have today — and what’s yet to come.

If the two players of the Saudi-Russia war carry out the threat of flooding the market with oil, essentially bringing the price per barrel down to \$15 or lower, things will get even worse for the sector as a whole, especially for a costly producer like Suncor that depends heavily on the oil sands for its production.

With oil demands getting lower, the storage facilities might also be on the brink, so production will have to slow down, one way or another.

Just last week, Suncor announced that it's partially shutting down the Fort Hill oil sands project. The facility had two trains running at optimal capacity. But now, the company is running one train at full capacity to manage costs. Suncor has also announced that it would reduce its spending budget for the year by 26%.

## Will Suncor recover?

One of the worst things about the current pandemic is uncertainty, especially for the energy sector. If the oil war continues for even a month longer, in conjunction with the coronavirus fear and lockdowns in place, the sector might see a plunge that would take years to recover from. Companies like Suncor might even take up to a decade.

Despite a very strong balance sheet, [manageable debt](#), and loyalty to an investor, the company is seeing many of its allies backing out. If the sellout continues along with the low demand, the company might have to make some significant operational changes and put a lot of expansion plans on hold. The longer it continues, the longer the path to recovery will take.

## Foolish takeaway

Suncor, despite a relatively flat growth past decade, saw a lot of investor confidence thanks to its Dividend Aristocrat Status and prioritizing its investors. The confidence was boosted when the Wizard of Omaha re-bought the stock.

But now, even the people who are still sticking with the stock are unsure about whether the company is able to sustain its payouts or not. And they have probably made peace with the capital gain front.

Still, many investors are hopeful that Suncor might make a [full recovery](#) and get back on track.

### CATEGORY

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1. NYSE:SU (Suncor Energy Inc.)
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