Oil Price War Ends: Suncor (TSX:SU) Could See Explosive Growth in 2020

Description

The diplomatic breakthrough between Saudi Arabia and Russia to end the oil price is a win for the global economy. By agreeing to cut global petroleum production by almost 10%, pressure on oil companies should ease. Despite the deal, however, skeptics are claiming that the cut will not dent the massive oil glut.

While the initial proposal was to cut production by 10 million barrels, the Big Oil Deal came down to 9.7 million barrels a day. According to Saudi Energy Minister Prince Abdulaziz bin Salman, Saudi Arabia is more than happy with the accord.

Canada, along with Brazil and the U.S., will contribute 3.7 million barrels a day. Other G20 countries are expected to make voluntary cuts.

What’s next?

COVID-19 is paralyzing air and ground travel and bringing down demand for gasoline. Diesel and jet-fuel, in particular, are collapsing. The intervention by the United States made it possible for the warring parties to agree to a deal. But there will be a few more weeks of oversupply.

The deal takes effect on May 1, 2020, and the production restraints could last for about two years. The production cut will be down to 7.6 million barrels per day after June until year-end. Through 2021 until April 2022, the cut will be reduced to 5.6 million barrels per day.

Highest-rated energy firm

The decline in oil prices is hurting Canada’s leading integrated energy producer badly. Before the historic deal, **Suncor Energy** (TSX:SU)(NYSE:SU) announced a 26% cut in spending. The demand shock forced the company to reduce spending by $1.5 billion, where the adjusted range is now between $3.9 and $4.5 billion.

According to Suncor President and CEO Mark Little, the simultaneous supply and demand shocks are having a significant impact on the global oil industry. He said the adjustments will cover both spending and operational plans.

Suncor is anticipating the weak business environment to extend longer. Thus, the twin moves will ensure that the company could endure a protracted market disruption. Little assures investors that the business model and financial strategy of Suncor can withstand volatile environments.

The shares of this $32.63 billion company are on a rally since falling to a low of $15.41 last March 23, 2020. As of this writing, Suncor has climbed to $21.37, which represents a gain of 38.7%. Year to date, this energy stock is still losing by 49.1%, although the dividend yield has risen to 8.22%.

Suncor remains a top-notch investment option during this market crash. Moody’s Investors Service and S&P Global Ratings are maintaining their investment-grade rating. As such, the rating makes Suncor one of the highest rated firms in an industry beset by high risks.

Solid endorsement

Moody’s latest statement issued states, “Suncor’s liquidity is good.” Even if oil prices stay low, the company is taking needed action to maintain its capital structure and cash flow.

There might be new announcements or developments come May 6, 2020, when Suncor holds its annual general meeting. For now, investors should feel safe having this energy stock in their portfolios.

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