



## Do Negative Oil Prices Matter for Suncor Energy (TSX:SU)?

### Description

History was made on Monday morning energy trading as the price for Western Canadian Select — the benchmark price for heavy oil coming from Alberta's oil sands — briefly dipped into negative territory. That's right. Canadian heavy oil producers like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) were paying customers for the privilege of taking their oil.

The benchmark for North American oil is doing better, but not by much. Weighed down by a sea of supply amid the COVID-19 economic collapse, West Texas Intermediate oil prices hover around \$10 per barrel as I type this. We haven't seen prices that low since 1986.

Despite what it may seem, today's situation isn't quite as bad for Suncor Energy as you might think. Here why the stock is holding up surprisingly well despite this negative news.

### Not *really* negative prices

Investors must remember something about the energy market before getting too excited about negative Western Canadian Select prices.

Monday was the last day for traders to settle their positions for the May contract. Folks were dumping these contracts because they represent the obligation to physically deliver the commodity. The last thing an oil trader wants is to do be responsible for that, so they'll sell the contract. This pressure is what caused prices to momentarily dip negative.

When we look at future contracts, the price is hardly negative. In fact, BNN Bloomberg's current quote for Western Canadian Select — which looks at *next* month's futures — is more than US\$8 per barrel, which means that domestic producers like Suncor Energy will be getting approximately \$11.60 per barrel in local currency.

While that's not great, it's certainly a lot better than negative prices.

## The bull case for Suncor Energy

That I'm arguing for an energy company in today's world of massive oil oversupply, may seem odd, but I [continue to be bullish](#) on Suncor Energy over the long term.

First, the cure for low oil prices is low prices. This rout will devastate the marginal producers and leave the best ones — like Suncor — all the stronger at the end. With prices so depressed, most oil drillers have simply shut down production. Many will go bankrupt.

Remember, an oil sands operations is more like a mine than a traditional oil well. The cost to set up these gigantic assets is massive, easily into the billions of dollars. But the cost to extract each barrel after that is comparatively low.

Suncor Energy's strong balance sheet will also help during this tough environment. At the end of 2019, Suncor had \$2 billion in cash available and \$4.7 billion in available credit. It also has one of the best balance sheets in the business, suggesting it could take on more debt if needed.

Finally, let's talk about Suncor's downstream operations. It owns several oil refineries spread across North America, as well as a fleet of Petro-Canada gas stations. Yes, this part of the business is hurting as well, since nobody is really travelling right now. But it will roar back — likely by this summer. There will be a lot of pent-up travel demand as lockdowns are finally lifted.

During normal times, Suncor Energy's downstream operations have earned the company enough to pay the dividend, while management would reward shareholders with big buybacks from the oil production business. That bodes well for Suncor's dividend, which has been one of the top choices for [dividend growth investors](#) over the last 20 years. The current payout is an eye-popping 8.7%.

## The bottom line

Investors shouldn't sweat yesterday's headline of negative oil prices. It's a weird quirk in the market that doesn't necessarily reflect reality for Suncor Energy or other top energy producers here in Canada.

But at the same time, you have to be brave to venture into the sector. There's a ton of supply flooding the market today, and energy producers desperately need the economy to open back up again.

Suncor will survive this storm and this will look like a very compelling entry point a few years from now, but investors need oil to cooperate. If it does, you'll be laughing all the way to the bank.

### CATEGORY

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