



## OPEC Price War Ended: Time to Buy Suncor (TSX:SU)?

### Description

The coronavirus pandemic is one of the greatest threats that the global economy has ever seen. To make matters worse, two of the largest oil producers in the world, Saudi Arabia and Russia, started an oil price war and flooded the market with crude oil. This combined with the “low-demand” issue and threatened to push the economy down even further.

After significant pressure from the U.S., and considering the condition of the world economy in general, OPEC members and Russia decided on cutting production and ending the price war. In a historic decision, the countries decided on cutting about 10% of global oil production.

But is it really enough to make up for the demand loss?

### Reduced production and demand loss

About 11 days after the price war, the U.S. oil market crashed, with prices falling below zero for the first time in history. The demand for crude oil dried up, as economies around the globe are shutting down or going into hibernation mode. This left oil producers in the U.S. with a lot of crude in their hands that needs to be cleared up before the next production cycle begins.

Unfortunately, this is just one indicator of how massive the problem really is. Even when OPEC members and Russia decided to cut 10% of the global production, many experts believed that it was a mere fraction of the demand loss created by the pandemic.

Currently, Canada’s oil market seems in a tad better shape than the United States’s. The Canadian oil contract is for June, while the U.S.’s contract was for the prospects of May. But the continuous loss in demand has forced major Canadian oil companies to shut down production.

### Suncor

**Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is currently trading at \$20.6 per share, which is 13.8% down

since the temporary reprieve in early April. It's one of the few companies in the sector that hasn't announced a dividend cut yet, strengthening the belief of its investors in the company. But we have yet to see how far the company can keep rewarding its investors at this pace.

Suncor is the largest oil sands producer in the country, an oil raw material that is more costly to transport and process, especially when compared to the U.S.'s shale oil. If the demand stays low for a while, with the U.S. filling up its reserves to the brim, and oil sands bringing up the rear, Suncor might need to make even more aggressive production cuts to avoid overwhelming the transportation and storage capacity.

Currently, Suncor offers a very attractive yield of 9%, and it can [continue paying](#) off dividends, even amid the current economic condition. But the question again is, for how long? Even with a strong liquidation position, and with total assets that are almost double the liabilities, the company cannot stay profitable if the global oil demand keeps stagnant or falls lower than it has.

## Foolish takeaway

While Suncor itself may be in a strong position, its future is still tied to the oil sector in general. The demand deficit right now isn't akin to past crises the sector faced. So, even if the company is in a good [enough shape](#), and the stock is at a desirable position, investors might want to take a prudent approach towards this investment.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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