$0 Oil Prices: Is Suncor (TSX:SU) Done For?

Description

Oil did something on Monday, April 20, 2020, that nobody was anticipating. The May contract for West Texas Intermediate crude on the New York Mercantile Exchange traded and closed in negative territory.

The energy trading on Monday morning also saw the price for Western Canadian Select – the benchmark price for heavy oil coming from Alberta's oil sands – also take a slight dip in negative territory. Energy trading made history – but not in the way people want.

Energy sector operators like **Suncor Energy** (TSX:SU)(NYSE:SU) were paying customers for taking the crude oil off their hands.

The COVID-19 pandemic economic collapse is weighing down on North American oil as well. As I write this, West Texas Intermediate oil prices are around US$15.43 per barrel. It went low to around $10 per barrel as well. The prices have not been this low since 1986.

Despite what it may look like, Suncor is not in as bad a position as you might think.

Oil prices are not actually negative

Many investors are aware of the phenomenon called the short squeeze. In a short squeeze, traders are afraid that they might not be able to find the underlying physical commodity. The situation forces them to cover their positions and drives up the prices drastically.

What happened on Monday was effectively the opposite of a short squeeze. Traders were scrambling to get out amid fears that they will not be able to find a way to store the physical oil thanks to the havoc being caused by the pandemic.

The whole situation is bearish, nonetheless. However, it does not genuinely reflect the supply and demand fundamentals of the market.

Why Suncor might be all right

When we take a look at the future contracts, the current quote for Western Canadian Select, according to BNN Bloomberg, is more than US$8 per barrel. Canadian oil producers like Suncor might be getting $11.60 per barrel in local currency. While it's not the best deal, it is certainly not in negative territory.

There is a massive oversupply of crude oil in the world right now, which renders it a challenge to consider rooting for an energy company in this situation. The fact that the price of this commodity is low may be the only way for the sector to overcome the oversupply issues. With prices so low, it could see smaller operators go bankrupt.

Canada's oil production is through its oil sands and operates more like a mine than an oil well. The cost to set up operations costs billions of dollars. After set-up is complete, the cost of producing each barrel is comparatively nominal. Many oil drillers have shut down operations due to low oil prices and might not last long.

Suncor, on the other hand, can still plow through the current troubles. Suncor has an excellent balance sheet that can cover it during a challenging environment. When 2019 ended, Suncor had $4.7 billion in available credit and $2 billion in cash. The energy sector operator can take on more debt if it needs to stay afloat.

Suncor also possesses several downstream operations. Its oil refineries and Petro-Canada gas stations will have plenty of demand as the travelling resumes after the global health crisis subsides, and lockdowns are finally lifted.

Foolish takeaway

The headlines last week certainly rattled the minds of investors across the board, but I believe that it's nothing more than a quirk in the market. While it might affect smaller operators in the sector, Suncor and other top energy sector operators can walk out of it partially unscathed.

Investing in shares of Suncor doesn't come without risk. You do have to consider the fact that there is a massive oversupply problem right now. Energy operators do need the economy back up and running again.

Suncor might survive this storm, and it could be worth your while to consider the stock at a bargain price right now.

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