Oil Rally 2020: Should You Buy Suncor (TSX:SU)?

Description

The energy sector is bouncing back due to the rising demand for oil. Market sentiment is improving as the West Texas Intermediate (WTI) benchmark rose to above $28 per barrel to end the week. With WTI touching a nearly two-month high, signs of an oil rally are evident.

A continuous rally in 2020 should benefit oil sands king **Suncor Energy** (TSX:SU)(NYSE:SU). This prominent oil stock is underperforming for the most part of this year because of the turmoil in the oilpatch. The new development could put Suncor back in the radars of investors.

Market prognosis

The production cuts of major oil producers seem to be working so far. The shut-ins are gradually reducing the oversupply and pushing demand higher. Member countries of the Organization of the Petroleum Exporting Countries (OPEC) and Russia are considering maintaining the present production cut beyond June 2020.

As agreed upon by the group last April, the 9.7 billion barrels per day (BPD) output cut is until June only. The size of the curbs will reduce after that and will then stand at 7.7 billion BPD from July to December 2020. The oil ministers might come out with a new output policy when it meets early next month.

Some sources are saying that Saudi Arabia is leaning towards a deeper output cut. The leading oil producer wants to rush in draining the global supply glut. It will rebalance the oil market before the lifting of lockdowns. The pressure on crude storage capacity should ease by then.

Some are optimistic that the below $0 oil prices are over. Investor confidence should return to propel Suncor and other oil stocks. The second wave of coronavirus infections, however, could dampen the bright outlook.

Business slump

While Suncor delivered a modest 16.2% gain in 2019, it’s losing by 45.6% year-to-date. The stock price is down to $22.86, and the company recently made a prudent move to slash dividends by 55%.

In Q1 2020, Suncor reported a $3.53 billion net loss compared with the $1.47 billion income in the same period last year. According to Suncor President and CEO Mark Little, the turbulent market situation is the result of global events convergence. The rapid demand reduction requires a thoughtful and measured response.

Management needs to protect the company’s financial strength while also maintaining resiliency. For this year, Suncor will reduce capital spending by 33% and bring down the operating cost by 10%. The company will also decrease the use of cash by $4.5 billion (annualized).

Suncor remains cautious despite the bright oil price forecast. There’s a strong possibility that economic uncertainty and high volatility will linger to weaken commodity prices. Its CEO sees substantial recovery to come by 2022.

Lost appeal

The investment thesis for Suncor moving forward is not encouraging. It’s a pity because this oil stock is a mainstay in the portfolios of income investors. The temporary dividend cut could be permanent if things take a couple of years for the business to normalize.

Similarly, there’s no guarantee that oil prices will surge dramatically in the near term.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/19
Date Created
2020/05/19
Author
cliew