



Suncor Energy (TSX:SU) Stock: \$0 or \$40?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is a [roller-coaster](#) stock. Some investors have *made* millions. Others *lost* millions.

From 1995 to 2008, for example, shares rose *35 times* in value. A \$5,000 investment became \$175,000. And that's not including dividends, which often added 3% per year.

Yet there's a flip-side to this equation. Shares currently trade at the same price as they did in 2009. That's a decade of lost returns. Global stock markets, meanwhile, posted strong gains, even including the recent coronavirus correction.

Now priced at \$27, Suncor is at a [crossroads](#). In some scenarios, shares will zoom past the \$40 mark by the end of 2020, giving investors a chance to make a quick 40% profit. Under other conditions, the stock could go to zero.

These are extreme situations, but given volatility in the oil markets, anything can happen. Few analysts predicted that oil prices would crash from US\$110 per barrel to US\$40 per barrel in 2014. Even fewer projected the fall below US\$20 per barrel earlier this year, not to mention to 100% rise over the last few weeks.

If you want to make quick money, stocks like Suncor are your best bets right now. Just be sure to understand what you're buying.

Markets are nervous

Commodities have always been a difficult game. Producers don't control their own destiny. They truly are at the whims of the market. Sure, an oil company can lower costs and discover new reserves, but profits will always be a function of global pricing.

Who controls global pricing? That's a good question. The most important thing to know is that markets are fairly poor at dictating commodity prices. Instead of basing it on supply and demand, commodities

are priced at the cost of marginal production. Wherever production costs go, so do prices.

In 2015, famed investor Jeremy Grantham explained the sudden collapse in pricing the year before, which added a tonne of pressure to Suncor stock.

“A wave of new U.S. fracking oil could be seen to be overtaking the modestly growing global oil demand,” he began. “The Saudis declined to pull back their production and the oil market entered into glut mode, in which storage is full and production continues above demand.”

This phenomenon played out *again* earlier this year. Grantham hits the nail on the head with his explanation of the plunge.

“Under glut conditions, oil (and natural gas) is uniquely sensitive to declines toward marginal cost (ignoring sunk costs), which can approach a few dollars a barrel — the cost of just pumping the oil.”

Should you trust Suncor stock?

Investors in oil stocks like Suncor are realizing these sudden shifts can occur at any time, regardless of the quality of management or assets. No matter what the company does, it simply does not control its own future. This is a recipe for disaster, creating a mismatch between long-term planning and short-term spending.

Indeed, we’ve seen this scenario play out for more than a decade. Suncor has spent *billions* in capital development, yet has created almost no value for shareholders. If you’d bought the stock in 2006, your total return would be roughly 0%.

Suncor isn’t alone. Shares of **Exxon Mobil** trade at 2000 prices. That’s a full two decades of value destruction.

Will SU stock hit \$0 or \$40 first? That question is beside the point. No matter where the stock prices gyrates, this is no place for long-term investors.

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