Is Suncor (TSX:SU) a Bargain Buy?

Description

Oil and gas stocks are down this year for multiple reasons. Not only have commodity prices been low — and even negative at one point– but the coronavirus pandemic's impacted the economy as a whole. It's no wonder why shares of **Suncor Energy Inc** (TSX:SU)(NYSE:SU) are about half of the price they were at the start of the year.

But with the stock falling so significantly in such a short time, investors may be tempted to take on a contrarian position and buy shares of the energy company.

Let's take a look at whether the stock's a good buy given its steep discount or if you're better off steering clear of the industry giant.

The company's coming off its second straight multi-billion dollar loss

On May 5, Suncor released its first-quarter results of fiscal 2020. Suncor reported a mammoth $3.5 billion loss during the quarter. The company incurred a $1.8 billion after-tax asset impairment charge and a $1.0 billion after-tax foreign exchange loss after revaluing its U.S. debt.

COVID-19 has also impacted the company's operations, which explains why Suncor still would've reported a loss even after factoring out the impairment and foreign exchange losses.

But this also isn't the first time that Suncor's suffered such a significant loss. Investors only need to go back to the fourth quarter of 2019 to see the last time Suncor's financials took such a beating.

In Q4, Suncor's loss of $2.3 billion was only a bit more modest than Q1's loss. Here again, the company incurred another after-tax asset impairment charge of $3.4 billion — nearly double the size of the impairment the company booked in Q1.

Impairment losses are non-cash items and they can make a company's financials look a whole lot worse, especially when they involve factors that management can't control, like a sluggish price of oil.

No longer an Aristocrat

On February 5, Suncor announced it was raising its dividend payments for the 18th year in a row. But a month later it would announce that it would be cutting its dividend payments — from $0.465 to just $0.21. The company felt the move was needed so that it could "drive down the cash breakeven of the company to a West Texas Intermediate (WTI) price of US$35 per barrel."

As a result of the now broken streak of dividend increases, Suncor was removed from the **S&P/TSX Dividend Aristocrats Index** effective June 1.

Should you take a chance on Suncor?

As a dividend investor, I wouldn't feel confident in the company's dividend. With Suncor no longer an Aristocrat and oil prices potentially diving lower than US$35/barrel, there's little standing in the way of another cut, especially since the pandemic's nowhere near over.

Shares of Suncor are currently trading below the stock's book value, but that has little meaning these days given the impairments the oil and gas company's been making of late.

Overall, there's no compelling reason to buy invest in Suncor today. It's hard to see a path where oil and gas activity picks up and the stock starts rallying again. And a more realistic scenario is that the stock continues to sink lower, especially with cases of COVID-19 surging in the U.S. and threatening the reopening of major cities in North America.

If you're a contrarian investor, you may want to wait until after the company releases its earnings later this month as the stock could be headed for even more of a decline in the weeks ahead. For everyone else, however, this is a stock you're better off avoiding.

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Date
2025/07/21
Date Created
2020/07/08
Author
djagielski