Suncor (TSX:SU) Stock Drops on Disappointing Results

Description

It has been a disappointing year for one of Canada's largest integrated energy company, **Suncor** (TSX:SU)(NYSE:SU). Year to date, the company is down by 45.36%. After years of outperformance, it is now one of the worst-performing stocks in the industry.

Earlier in the week, I'd indicated that there was little reason to buy Suncor stock before earnings. How did the company perform? Let's take a look.

The earnings report

After the bell on Wednesday, the company reported financial results for the second quarter ending June 30, 2020:

Metric	Reported	Expected
Earnings per share	-$0.98	-$0.65
Revenue	$4.25 billion	$3.51 billion

All things considered, it was a disappointing quarter from Suncor. The company posted an operating loss of $0.98 per share, which missed by $0.33, while revenue of $4.25 billion beat by $740 million. Although the numbers look respectable against analysts' estimates, it is quite a different story year over year.

The net loss per share is a far cry from earnings of $1.74 per share posted in the second quarter of 2019. Likewise, revenue fell by 45.26% from $7.756 billion last year.

The big drops over the second quarter were to be expected. Low oil prices took its toll on the industry, and the pandemic exasperated demand. As a result, production fell to 655,500 barrels of oil equivalent per day, an 18.5% drop YOY.

> "The company's results in the second quarter of 2020 were significantly impacted by the COVID-19 pandemic, which has lowered demand for both crude oil and refined products and, combined with the OPEC+ increase in supply, resulted in a significant decline in

> commodity prices, compared to the prior year quarter." — Company press release

In other words, the oil and gas industry faced two macroeconomic headwinds simultaneously. This led to Suncor reducing forward cash commitments by $4.5 billion in 2020.

The year ahead

Now that the price of oil has rebounded off lows, is there reason for investors to be optimistic? First and foremost, Suncor's fortunes remain tied to the price of oil.

As Suncor previously announced when it cut the dividend in May, the company's funds from operations (FFO) breakeven price is US$35/per barrel. The good news is that the price has been consolidating above this level for the past month.

So long as the economic rebound suffers no notable setbacks, the price of oil may have seen its bottom. Unfortunately, we live in times of considerable uncertainty, and this is no guarantee.

As per the company, "there are a number of external factors beyond (its) control … including the status of the COVID-19 pandemic and potential future waves."

On the bright side, the company exited the second quarter in a strong financial position with $9 billion in liquidity. This should be sufficient to maintain the company's current dividend and revised capital program of $3.8 billion.

Likewise, Suncor reiterated previously reduced guidance for full-year production of 760,000 boe/d. This is good news and can be a sign of optimism from management

Is Suncor stock a buy today?

Despite what was a decent quarter, it did little to change my neutral outlook on Suncor. The reality is that uncertainty remains, and there are already signs of a potential second wave and additional shutdowns. This is sure to pressure the price of oil over the near future.

With that in mind, there should be plenty of opportunity for investors to either start or top up existing positions over the next few months.

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