Why Was Suncor Stock Down This Week?

Description

Down 3.8% Thursday, **Suncor Energy** (TSX:SU)(NYSE:SU) continued to pay the price for oil's worst ever year. A perfect storm of oversupply, protectionism, deglobalization, and faltering demand had paved the way for an unexpected pandemic to sweep in and finish off the oil industry. Even bullish pundits threw in the towel on hydrocarbons. From the vantage point of 2020, the future is green when it comes to energy.

A key stock to scale back on this summer

Suncor posted a bigger-than-expected drop in profits in what has proven so far to be a damning Q2 across the board. Even some of the steadiest-rolling names on the TSX — notably, our two major rail operators — saw a disastrous second quarter. However, since Suncor was already such a divisive name, even before the tire fire that is 2020, let's take a deeper dive into the ailing oil producer.

Production fell by around one-fifth during Suncor's Q2. But one can't help feeling output would have been slashed a lot more harshly had oil producers realized earlier on what was in the pipeline for April. Fast forward to the present day, and oil producers are urging caution when it comes to turning the taps back on. Suncor is among them.

A loss of $614 million is nothing to be sniffed at. Especially in an industry that saw its major commodity — oil — not only lose all value for a moment, but actually trade briefly for negative dollars. The thesis for buying Suncor stock right now simply could not be weaker. Selling just below its book price, Suncor is cheap. But it could be cheaper.

Is it worth buying for a recovery?

Suncor's mediocre valuation makes a value thesis hard to defend. There are two big problems with Suncor's market ratios. First of all, a recovery is baked into the market. Investors expect things to get better. This means that equities don't have as much upside as they could. On the contrary, stocks have plenty of downside. There is plenty of scope for investors to be disappointed in the latter half of the year.

Second, Suncor's 36-month beta of 1.7 highlights a level of volatility that is significantly frothier than the market. This is not a stock for low-risk investors in the current situation. However, despite being down by 43.4% since this time last year, neither is this a value play. At least, not yet. But this situation could change rapidly. Interested would-be shareholders should keep an eye out for a more substantial pullback before thinking about building a position.

Meanwhile, with total three-year returns currently estimated to be negative by nearly 40%, this is looking like a solid sell. Between a double-dip recession on the horizon and dwindling household savings, cashing in shares is tempting right now. Suncor shareholders may wish to do so while the company is still trending higher than April prices. In summary, Suncor is a stock to take off the table in the current environment and at its current valuation.

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