Suncor (TSX:SU) CEO Has This Warning to Share

Description

The energy sector has been in trouble for a while now. The pandemic did push oil prices into negative territory, something that no previous recession was able to do, but in the long run, this was just the latest episode about the woes of the sector. This is something many energy investors have picked up on, and many are staying clear of the sector, just in case.

The major players in the sector, who have a much broader perspective on oil demand and the future of the sector, don't seem very helpful. One example is **Suncor** (TSX:SU)(NYSE:SU) CEO Mark Little.

The warning…

CEO Mark Little isn't very hopeful about the recent recovery in oil prices. The company has decided not to ramp up production again until it's certain that the nascent recovery is here to stay and grow. Right now, the major factor that has contributed to the oil prices and demand going up, despite the fact that the many countries are still in the later stages of reopening (but haven't fully reopened yet), is that OPEC countries and Russia have curtailed their output.

The demand hasn't reached its full capacity yet, and it might slump again if another wave of the pandemic hits. And that's just one of the reasons why Suncor is continuing with its limited production capacity. The company produced about 18.5% less oil per day in the second quarter of 2020 than it did in the second quarter last year.

The CEO expects prices to remain volatile, though not as much as they were in the second quarter. Still, the company will not take the decision of reopening its second train in its Fort Hills facility if the demand stays steady or grows. But he also listed factors (including a second wave of the pandemic) that might instigate another bout of low demand.

Suncor's stock

The company is currently trading at $21.5 per share at writing. It's about half the pre-pandemic highest.

The company is also facing seven environmental charges, and the company recently posted a loss of $614 million for its second quarter.

That's a massive sink from the $2.7 billion profit in the same quarter last year. This beloved Dividend Aristocrat also had to slash its dividend down to 50% of its previous year's dividends.

The energy sector is suffering, and Suncor is suffering a bit more than many other companies in the energy sector. If the company has to keep operating at low capacity and demand doesn't surge for a few more months, we might see one or two more quarters of loss.

Foolish takeaway

At its current valuation, Suncor might look very attractive to some investors. Even after slashing its dividends down to halves, the yield is at 3.9%. The stock is trading at a price to books of 0.9 and a trailing price to earnings of 12 times.

While the balance sheet is strong, the prospects appear dark. But Buffett hasn't bailed on the company yet, and that might be a good sign.

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. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/14
Date Created
2020/08/01
Author

adamothman