
ALERT: Suncor (TSX:SU) Stock Now Faces 7 Environmental Charges

**Description**

**Suncor Energy** (TSX:SU)(NYSE:SU) is having a tough 2020. Year to date, shares are 51% lower.

This week, we got more bad news. “Suncor Energy Inc. is facing seven environmental charges in connection with its Strathcona County refinery,” reports CBC.



“All of the charges are contraventions of the Environmental Protection and Enhancement Act — one charge each of releasing a substance into the environment that may cause an adverse effect and failing to report the release in a timely manner, and five counts of contravening a term or condition of approval,” the report continues.

Following the news, shares continue to trade near multi-year lows. Is now the time to buy low?

## Here are the facts

Oil companies have been slammed this year for two reasons.

First, oil-producing countries staged a pricing war. Earlier this year, Saudi Arabia urged big suppliers to cut production. Many agreed, but there was one notable dissenter: Russia.

To flaunt its power, Saudi Arabia *increased* its own production, slashing prices as well, sending the market into freefall. Oil prices fell precipitously, from US$60 per barrel to under US$20 per barrel. At one point, oil futures were trading at negative prices!

Just as this issue was being resolved, the COVID-19 crisis hit. Oil demand fell off a cliff. Planes, trains, and automobiles were halted. Travel plans were cancelled. Suddenly, the world was using significantly less oil. This worked to keep prices around the US$40 per barrel mark, well below its previous highs.

Low prices are obviously bad for oil producers, who typically sell their product on the open market. But Suncor *isn't* a pure oil producer. As we'll see, it has some advantages that could allow it to thrive in the new normal.

## Buy Suncor stock?

Last year, Warren Buffett took a 10.8 million share stake in Suncor stock. The investment rationale was obvious. Buffett wasn't betting on oil prices, but on which types of companies will succeed. He was hunting for an *integrated* oil company.

"Suncor is what we call an integrated oil company. That means it controls the entire supply chain, including pipelines," I wrote. "Suncor also controls its own refineries. These are facilities that turn crude oil into usable products like kerosene and jet fuel."

These are some clear advantages. First, pipelines can reach capacity with surging industry supply. Owning its own pipelines means Suncor never has to compete to move its output. Second, refinery margins often run counter-cyclical to oil prices. When commodity prices fall, refinery profitability typically rises.



With oil prices continuing to gyrate, and the risk of oversupply hanging over the market, Suncor is the best-positioned oil company in Canada. Just be sure that you're also an oil bull. The company is likely producing a net *loss* in the current environment. If prices don't surpass US$50 per barrel in 2020, even Suncor stock will struggle.

Value investors are circling energy stocks. Suncor is one of the most attractive options, but it doesn't control its own fate. Only higher oil prices will bail out this investment.

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