



Should You Buy Suncor Energy (TSX:SU) or Barrick Gold (TSX:ABX) Today?

Description

The gold rally has many investors moving funds into the gold miners, but oil is also making a comeback.

Black gold opportunity

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) is Canada's largest integrated energy company. The upstream production assets, including the oil sands and offshore oil operations, are best known to investors. However, Suncor also owns four large refineries and roughly 1,500 Petro-Canada retail locations.

The downstream businesses traditionally serve as a hedge against low oil prices, but the pandemic lockdowns hammered these groups. People stopped driving their cars due to office closures, and global airlines grounded their fleets.

With the economy reopening, people are back on the road, and air travel is slowly picking up. Gasoline demand should continue to rise and might even top pre-pandemic levels in the next couple of years. Some people will continue to work from home, but those that return to offices could decide to drive instead of taking public transport.

Jet fuel demand will remain weak for a few years. In fact, airline executives say it could be 2024 before they see capacity back at 2019 levels.

The price of oil briefly went negative on the futures market in April. Since then, it has steadily recovered. At the time of writing, WTI oil trades above US\$43 per barrel. That's a five-month high.

Suncor stock traded above \$45 per share in January. Today, it trades close to \$22, about where it sat at the end of March and in late April when the market feared global oil storage would reach capacity. That didn't happen, and efforts by OPEC to curb supply have combined with production cuts in North America to support oil prices.

Suncor's breakeven is around US\$35 per barrel. The stock has still not responded meaningfully to the

improving demand for fuel and the higher oil prices.

Suncor cut the [dividend](#) by more than 50% earlier this year to preserve cash. The payout now provides a 3.8% yield.

Barrick Gold

Gold just topped US\$2,000 per ounce to set a new all-time record price for the yellow metal. Safe-haven demand and falling interest rates look set to continue in the coming months amid rising tensions between the United States and China and efforts by central banks to stimulate economic recovery.

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) now trades above \$40 per share. That's the highest price for the stock in nearly eight years.

Management worked hard to reduce debt after getting into trouble during the last boom. Barrick spent big bucks on expensive acquisitions and was nearly crushed by US\$13 billion in debt as gold prices fell.

The balance sheet is now in great shape. In fact, Barrick could actually end 2020 with zero net debt. Production runs about five million ounces per year. The price of [gold](#) is up roughly US\$500 per ounce in the past 12 months. All things being equal, the gain potentially adds an extra US\$2.5 billion in annualized revenue and profits.

The stock price has nearly doubled off the closing low in March. Profit taking should be expected in the coming weeks, given the huge run in the second half of July. However, Barrick should continue to move higher over the medium term if gold holds its gains.

Investors could see Barrick raise the dividend before the end of the year.

The bottom line

Suncor and Barrick Gold both appear attractive right now for investors searching for opportunities to hold over the next two to three years. Suncor likely offers better upside potential at this point, especially if oil prices continue to recover.

Barrick should benefit from continued gold momentum. However, a meaningful pullback wouldn't be a surprise in the near term. When that happens, investors should consider adding to the position.

If you only buy one today, I would go with Suncor. The Q2 numbers came in ugly, and Q3 won't be great either, but the energy giant looks oversold at the current stock price.

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