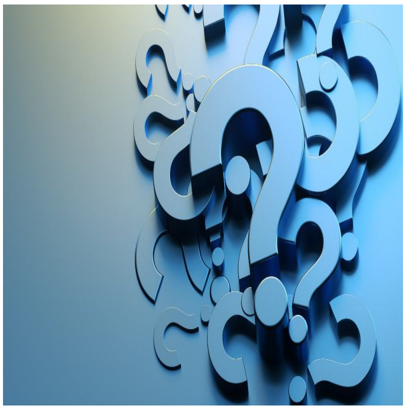

What Should Investors Do With Suncor Stock?

Description

It's been a rough week for investors, and that's an understatement. Investors are navigating an increasingly frothy market, and all of this while entrenched in a North American recession. But for **Suncor Energy** (TSX:SU)(NYSE:SU) investors, things just got a little more complex.

The cause? OPEC and its allies are facing the prospect of oil production cuts amid a grim outlook in terms of demand. Both OPEC and the International Energy Agency (IEA) have revised their outlooks for oil demand for the year. The recovery from the pandemic has been piecemeal so far and could last longer than some analysts have been willing to project. Indeed, energy demand is itself emerging as one of the key indicators of recovery efforts.

How to play Suncor stock right now

As always, there are three things that an investor can do with a stock: buy, hold, and sell. It can be argued, though, that there is a fourth option: put it on a watch list. And that latter option is something that prospective Suncor shareholders should be starting to think about right now. Investors should check their exposure to energy stocks, though, and act accordingly.

Back in July, OPEC+ came to the decision to trim output by 7.7 million barrels per day. This was set to last August to December. Oil prices were down Thursday adding to the grim outlook. Investors should also take note that, overall, oil prices are still down 35% year to date. Meanwhile, the pandemic is weighing heavily on demand.

Current Suncor shareholders should be keeping an eye on deteriorating valuations. While this may feel like a good time to sell, investors should consider how much of a loss they might be taking. Financial horizons are also key. If liquidity is an issue, it may be worth cashing in a few shares. However, for the long-term shareholder, Suncor could be worth holding onto for a few more years.

A key stock in an essential industry

Let's look at a few figures. Lower oil sands guidance has caused Suncor to retreat somewhat; it's down by 1.5% across five days. Some estimates put its earnings growth at 66% annually, which, combined with a 67% discount off its fair value, adds up to a buy.

New investors should consider taking a look at Suncor at its current valuation, therefore. Canadian oil is still one of the main struts of the economy. As such, it's likely that the "black gold" will continue to pump for years to come. While the headwinds from the green economy seem likely to eventually get the better of the hydrocarbons industry, major players such as Suncor could prove instrumental in the transition.

In short, investors should expect share prices in affected producers to continue to weaken as the year progresses. While this poses a threat to portfolios, it also opens up value opportunities for current and prospective Suncor shareholders alike. Investors should consider buying smaller numbers of shares whenever the market dips. This will make for a larger long-term position but at a reduced capital outlay.

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