61% OFF: Buy Suncor Stock Right Now at Just $16.50 Apiece

Description

The COVID-19 pandemic has decimated **Suncor Energy** (TSX:SU)(NYSE:SU) so much so that its stock lost over 61% of its value this year and is available at about $16.50 apiece. Significant erosion in demand and higher supply weighed heavily on energy companies, including Suncor.

Suncor announced significant cost-cutting measures and even reduced its dividends to remain afloat amid challenges and boost liquidity. The company announced a $1 billion reduction in operating costs on a year-over-year basis and slashed its quarterly dividends by 55%. However, uncertainty over the future demand for crude oil and continued increase in infections is restricting the recovery in Suncor stock.

As the massive selloff in Suncor Energy stock eroded significant value, I believe it's time to invest in beaten-down sectors like energy, which has not participated in recovery rally to generate stellar returns in the medium to long term. Though I see a lot of ifs for Suncor stock to reach the pre-pandemic levels, a big discount of over 61% and the scope for recovery make it an attractive investment at the current levels.

The bull case

Investors should note that the large global crude inventories and increasing infections suggest that it would take at least two to three years to get a balance between demand and supply. Further, a lot will depend on the coordination among OPEC+ nations to actively manage the prices and the oil market.

The glimmer of hope comes from the sharp recovery in China and the unlocking process in India. As the demand recovers in the world's second- and third-largest oil-consuming nations, crude oil prices are likely to get support.

Suncor’s long-life and low-decline assets provide a strong competitive advantage. Meanwhile, its integrated business model helps in reducing some of the risks associated with the volatility in price. Further, Suncor is focusing on maximizing the value of its assets and optimizing its product mix to counter the shift in demand.

Suncor continues to produce higher-value synthetic crude oil barrels, which maximizes its per-barrel margin and cash flow amid lower overall production and increase in unit costs.

The company remains on track to achieve its cost-reduction targets for 2020. It plans to reduce its operating costs by $1 billion over 2019 levels (a decline of 10% year over year) to boost liquidity and lower its cash breakeven price.

Bottom line

The uncertainty over the pace of economic recovery suggests that oil prices could trade sideways over the next several months. However, the long-term outlook for energy remains favourable and should support the upside in Suncor Energy stock.

Suncor’s production mix shift towards higher-margin synthetic crude oil and cost reduction should help in navigating the current crisis. Further, Suncor’s forward EV-to EBITDA multiple of 6.5 look appealing. Investors with a medium- to long-term investment horizon could consider buying Suncor stock at the current levels, as even with a protracted pace of recovery, it’s likely to deliver substantial gains in three to four years.

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