Why Did Suncor (TSX:SU) Stock Lose 23% Last Month?

Description

Shares of Canada's energy giant **Suncor** (TSX:SU)(NYSE:SU) fell 23% in September to close trading at $16.26. When Saudi Arabia announced it will lower the price at which it sells oil for October delivery, crude prices tumbled, which in turn impacted energy companies.

Further, the broader market sell-off, coupled with fears of a second wave of the dreaded coronavirus hurt Suncor and energy peers in the last month. Suncor stock is currently trading 64% below its 52-week high and is down 70% in the last two years.

Suncor

Suncor was a major player in pioneering the commercial development of Canada's Athabasca oil sands, one of the world's largest petroleum resource basins.

The company has now grown to become an integrated energy company with a portfolio of high-quality assets. Its operations include oil sands development and upgrading, conventional and offshore oil and gas production, petroleum refining, and product marketing.

Suncor is also focused on growing its renewable energy portfolio.

Warren Buffett increased shares in Suncor stock

While energy companies have been hit hard in 2020, Warren Buffett has gone bottom fishing and increased his stake in Suncor Energy. According to **Berkshire Hathaway's** 13F filings for the June quarter, the company owns 19.2 million Suncor shares, up from 14.5 million shares compared to the March quarter.

The energy sector has been nothing short of a train wreck in 2020. However, let's take a look at why the Oracle of Omaha remains bullish on Canada's energy infrastructure giant.

Suncor remains well poised to hedge against a weak pricing environment as the company can leverage its downstream refining operations. Alternatively, it can also take advantage of rising oil prices by increasing drilling activities.

Suncor can generate robust profit margins on refined products it produces from the Canadian Tar Sands. Further, the Canadian West Coast ports allow Suncor to access high demand markets in Asia, which is one of the fastest-growing regions right now.

Tepid Q2 results

In the second quarter of 2020, Suncor reported an operating loss of $1.49 billion or $0.98 per share. In the prior-year quarter, the company's operating profit stood at $1.25 billion or $0.80 per share.

Suncor said, "In the second quarter of 2020, crude oil and refined product realizations decreased significantly, with crude oil and crack spread benchmarks declining by more than 50% compared to the prior-year quarter due to the impacts of the COVID-19 pandemic and OPEC+ supply issues."

The decline in consumer demand for refined products resulted in lower demand for crude oil as well as lower upstream production volumes.

What next for Suncor and investors?

Suncor has earlier forecast capital expenditures of $5.7 billion for 2020, which has now been reduced to $3.8 billion. It expects to decrease operating expenditures by $1 billion in 2020. Earlier this year, Suncor already reduced quarterly dividends by 55% to $0.21 per share. Despite the dividend cut, Suncor has a forward dividend yield of 5.1%.

We can see Suncor is looking to improve liquidity and lower costs to tide over these uncertain times. However, there is a good chance for the company to suspend dividend payments entirely if oil recovery is delayed.

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