



Suncor (TSX:SU) Crashed 66% in 2020: Will 2021 Be Any Better?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) can't seem to catch a [break](#), with shares retreating 4.8% on a Thursday, where West Texas Intermediate (WTI) prices fell below the US\$40 mark. With shares of Suncor now down 66% off its 52-week highs and 72% off its 2018 highs, one has to wonder when the [pain](#) for the best-in-breed integrated oil play will finally end.



Following Suncor's 55% dividend reduction several months back, the stock has been less resilient than its peer **Canadian Natural Resources**, which still boasts a bountiful dividend payout with a yield that's now well above the 8% mark. There's no question that Suncor lost some fans when it slashed its dividend down the middle. Still, with the discount to book value widening to unprecedented levels, it

seems as though the pessimism has now become overblown beyond proportion.

Hunting down deep value in the brutalized energy sector

Yes, the energy sector has taken the brunt of the damage amid the COVID-19 crisis. Oil prices are likely to remain in limbo until we're out of this pandemic, and while the fossil fuel industry is in long-term secular decline, I think one has to draw the line somewhere. As someone wise once said, any stock, even the ugliest ones, can become a buy if the price is right.

The headwinds in the oil patch are unfathomable right now. The COVID-19 crisis has caused the perfect storm, and while there are no easy solutions for hard-hit energy stocks, I think today's depressed valuations allow contrarians a shot to scoop up some profound value. Suncor and many of its peers are experiencing profound negative momentum right now. Even considering the insurmountable headwinds, the selling has become overblown beyond proportion, and I think the stock has vastly undershot its intrinsic value range over the past month.

The path ahead for Suncor Energy and the integrated oil kings

Yes, there's a tonne of baggage to be had with a name like Suncor in this damaged market environment. However, at a 30% discount to book value, I'd say the price of admission is well worth the downside risks, as long as you've got a time horizon that spans five years. WTI prices probably aren't going to remain this depressed forever. That said, the pandemic will continue to weigh on demand for another year at minimum. Once this pandemic ends, demand will likely creep back towards normalized conditions.

While the recovery in energy prices is unlikely to be a V-shape or even a K-shape, I think any modest relief is enough to move the needle for battered energy companies like Suncor, which currently trades as though there's no hope for the Albertan oil sands. I think investors are heavily discounting the firm's robust integrated businesses and its rock-solid balance sheet, both of which will allow Suncor to make it through this crisis under its own power.

Is now the time to back up the truck on Suncor stock?

Suncor shares look severely undervalued, but I'm not an advocate of catching falling knives. The negative momentum faced by the stock is nothing short of horrifying. If you're willing to hold for the long haul, I'd recommend buying in small increments on the way down, because a worsening of this pandemic could deliver another hit to the economy, hitting the demand for oil and crippling WTI prices further.

Simply put, there could be a lot more pain in the cards before things can get sustainably better for Suncor and its peers. Catching a falling knife can hurt. Just because the stock is dirt cheap does not mean it can't become much cheaper over the near term. Personally, I'd much rather wait for the pandemic to die down and the negative momentum in Suncor to slow down before I'd even consider going against the grain.

I'm not against buying Suncor at \$15 and change. But I'd say the name isn't the timeliest opportunity

out there, especially for those who lack a strong stomach for volatility.

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