



Suncor Energy: Has the Stock Price Finally Bottomed?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) finished last week on a positive note, despite another big drop in the price of oil.

Why did Suncor stock surge, and will the share price continue to move higher?

Suncor stock in 2020

Suncor's share price has been on a roller-coaster ride in 2020. The stock began the year near \$42 supported by WTI oil trading around US\$60 per barrel. The global economy was on a roll, and it appeared the recovery in the oil patch off the 2014-2016 crash might finally see some green shoots.

The pandemic put an end to that outlook and quickly sent most producers in the Canadian energy patch to new lows.

Suncor historically weathered drops in oil prices better than many of its peers due to its integrated business structure. The company's refining and retail operations traditionally fared well when oil prices slipped, helping offset the hit to the upstream assets.

The pandemic, however, is a unique beast. Lockdowns and travel restrictions hammered the global demand for fuel, thus driving down oil prices.

Suncor's stock price plunged to \$15 in March and then rode the global equity rally back to \$28 in early June. Since then, the market started to realize that demand for oil and fuel won't return as quickly as anticipated. The extension of travel bans due to a second wave of COVID-19 puts the global airline industry in a tough spot.

Air Canada cut 20,000 jobs in June. Major U.S. carriers began furloughing an anticipated 30,000 staff last week. Unless they get roughly US\$25 billion in aid from the U.S. government, many of those jobs could permanently disappear. The boss of **Boeing** took some heat in May when he speculated that a major U.S. airline could go bust by the end of the year.

Why did Suncor's share price finally bounce?

Suncor's share slide picked up steam in September, and the stock briefly dipped back below \$15 in early trading on October 2, as the market slumped on the news of President Trump's positive COVID-19 result.

Interestingly, Suncor's share price rebounded from a low of \$14.81 that day to close up nearly 3% at \$15.95. This occurred even though WTI oil prices slipped 4.5% and closed at US\$37 per barrel.

Part of the boost might have come as a result of bargain hunter deciding the pullback had gone too far. Short sellers might also have decided to lock in gains. Suncor also released news that day that apparently helped give buyers the nerve to step in and add the stock to their portfolios.

Suncor said it [intends](#) to reduce staff by 15-20% over the next 12-18 months. That works out to roughly 2,000 jobs.

The news came from the CEO via a company webcast and should have been negative for the stock. Suncor is one of the strongest companies in the Canadian oil and gas sector, so the announcement indicates the depth of the ongoing pain being felt due to the slow rebound in demand for fuel.

Should you buy Suncor stock on the bounce?

Suncor's stock price certainly looks cheap right now if you think the global economy and fuel demand will rebound strongly in the next few years. The fact that it bounced on bad news suggests a near-term bottom might be in sight. Contrarian investors with some patience could find long-term value at this level.

That said, volatility is expected in the coming months, and it is very possible this might just be a quick head fake before another leg to the downside.

The reduced dividend should be safe, so you get paid a decent 5% [yield](#) to ride out the storm if you decide to buy now.

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