What's Happening With Suncor Energy Stock?

Description

2020 has handed investors countless opportunities to buy shares in blue-chip names. Across the full spectrum of the TSX, big companies are going cheap. Names like **Suncor Energy** (TSX:SU)(NYSE:SU), therefore, present key areas to invest for the long term, bringing better value and richer yields. The problem is that these opportunities also bring weaker growth prospects and the risk of capital loss. How should investors balance this risk?

One way to play the oil space is to treat it as one might treat any speculative investment. With oil prices exhibiting increased volatility this year, growth could be hard to come by. But the prospect of a recovery brings with it the promise of capital appreciation. Plus, if companies can hold their bottom lines, those rich dividend yields could be locked in for years to come.

Suncor has had a tumultuous few days, however, which makes finding an entry point a little trickier than usual. The stock dropped precipitously last week on the news that Suncor was letting go up to 2,000 staff. Though Suncor shares rallied 2.9% by the end of the week, its five-day average was a dismal 4%, even after taking this bounce into effect. By Monday, that five-day average was negative by 6.8%.

Management is making tough choices to reduce overheads that arguably should have reassured new and existing Suncor shareholders. Until oil prices recover, keeping that bottom line steady is key in the current economic climate.

Balancing the risk in cheap, blue-chip energy stocks

However, the red flag here is wagging alarmingly. Reducing capital expenditures is one thing, but it can only be done so often. How much of any workforce is "expendable" after all? Businesses risk affecting their operability if they let too many staff go. At the end of the day, cutting back on capex is a last-resort play, and investors can't be sure how much more pain the pandemic could dish out.

Weighing it all up, Suncor comes out as a moderate buy at the moment. The name trades well below book price, with a P/B of just 0.67. Its rate of bleed is sustained over the last three months at around

30%. However, share price depreciation in the past four weeks has been staunched somewhat, shaking out at 23%. That’s still a lot of red ink. Down 60% since the start of fall 2019, Suncor is undoubtedly good value for money.

That dividend yield is improving as a result, too, currently shelling out around 5.3%. Chasing yields is risky in a recession, though. The potential for slashed or even suspended distributions casts a constant shadow over the markets.

Investors may be tempted to wait for the bottom with oil stocks. This is a dangerous game to play, though. While the likelihood of further share price losses is high, timing it is going to be next to impossible. The current situation is almost unfathomably complex. Instead, investors should make full use of a deteriorating market and buy smaller amounts of shares more often whenever this name declines.

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