Should You Buy Suncor (TSX:SU) Stock Right Now?

Description

I haven't been optimistic about the oil sector or **Suncor Energy** (TSX:SU)(NYSE:SU) in August and September. The sector has been wreaked by low prices and low demand, and the general consensus is that oil demand already peaked in early 2019.

Suncor stock has taken a beating, falling from over $45 in January this year to $15 in March. It slashed its dividends by 55% in April to conserve cash and since recovered to $28 per share in June on expectations that oil demand would pick up again but bad news on that front sent the price back to $15 currently.

The company recently announced that it would lay off 10%-15% of its 13,000 workforce. The layoffs will take place over the next 18 months with a 5% cut in the next six months. Coupled with a cut in capital spending from $5.4 billion to around $3.8 billion now, these efforts should make Suncor's balance sheet look healthier.

Suncor aims to lower costs

Suncor has consistently worked to lower costs and says that it can cover all its costs if oil trades between $25/bbl to $35/bbl/. At $25/bbl, Suncor covers operating costs. At $30/bbl it covers operating costs and sustains capital, and at $35/bbl, it can also sustain its dividend payout. Oil has held strong at over $35/bbl for a couple of months now, and with further cost-cutting measures, the dividend payouts should also hold.

In a September update, Suncor President and CEO Mark Little said, "We're pleased to be making progress on lowering costs at Fort Hills and Syncrude; we've opportunistically advanced maintenance at Base Plant and Firebag, brought on additional capacity at Firebag, and we believe this disciplined and strategic approach lays the foundation for strong performance in 2021."

Suncor has a strong liquidity position which was showcased when it delivered its investor presentation during the Q2 2020 earnings call. It had cash and cash equivalents of around $1.85 billion and a debtto capitalization ratio of 37.5%.

Is its dividend yield safe?

Debt maturity should not be a problem for the next five years with repayments of $11.2 billion scheduled in 2025. Suncor expects free cash flow of approximately $1 billion for projects that will be implemented by 2023 and another $1 billion for projects implemented between 2024-25.

Even after a 55% dividend slash, the company forward yield is a very attractive 5.27%. The stock price has very strong support at $15 and the world will not stop consuming oil overnight. Fair warning: If oil prices do fall below $35/bbl and stay there for a significant period of time, Suncor might look at further dividend cuts.

Fellow Fool Joey Frenette has said that Suncor has hit a major buying signal and that the stock is trading at a 30% discount to book value. Analysts agree with him as price targets range from $20 to $53.

This is a great buy for contrarian investors who are prepared to wait out the tough times.

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