



## Is Suncor (TSX:SU) Stock the Ultimate Contrarian Bet of 2020?

### Description

Like the rest of the global energy sector, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) has taken a severe beating this year. “COVID-19 may do for Big Oil what the Chicxulub asteroid did for the dinosaurs when it struck Earth 66 million years ago,” said Julian Lee in a *Bloomberg Opinion* piece last week. However, even in this extinction-level scenario, Suncor stock is an excellent long-term bet. Here’s why.

### Integrated provider

Most investors consider Suncor an oil company. However, the company is so much more than a traditional oil producer. It’s an integrated energy provider, which means it owns the railcars, pipelines, storage units and marketing channels to distribute the oil it produces. It also produces and distributes natural gas, which has completely different dynamics from oil.

This means the company’s income is diversified and a lot more robust than most investors believe. A decline in oil prices can be offset with higher production and distribution of natural gas or other services, keeping Suncor stock afloat.

### Price of oil

Nevertheless, Suncor’s core business is still the production of oil. Specifically, extraction from Canadian oil sands, which is a notoriously capital-intensive process. However, this process is capital intensive *upfront*, which is important for investors to note. Put simply, Suncor has already invested heavily in its plants years ago. Now, all they have to do is keep costs low and watch the cash roll in.

According to the company’s latest quarterly statements, its proven reserve base has the potential to last for at least the next +11 years. Over the next decade, the company states it needs the price of oil (West Texas Intermediate) to stay above US\$25 to cover operational costs and above US\$35 to cover everything, including the dividend.

WTI is hovering above US\$40 at the moment. As long as it stays at that level, Suncor stock should remain stable and sustain that lucrative 5% dividend yield.

## Suncor stock's valuation

Investors seem to have overlooked these factors, which is why the stock is still trading at a bargain. Suncor stock is worth 30% less than book value per share. The company's debt-to-equity ratio is just 60%, which is reasonable for an energy company in a low interest rate environment.

In short, Suncor stock is a steal. Warren Buffett certainly seems to agree. He boosted his stake in the company [by a whopping 33%](#), even as he cut his other oil investments. This vote of confidence from the Oracle of Omaha should encourage you to take a closer look at this beaten-down stock as well.

## Bottom line

The best investments are rarely obvious. For investors with an appetite for risk and the ability to go against the general consensus, such bets can often lead to incredible results. Suncor stock could easily fit this "contrarian" category.

There's no doubt that demand for oil isn't what it used to be. In fact, oil consumption could remain low for the next few years as well. But Suncor's business model and cost-cutting measures have made the company's operations sustainable, even in a low-price environment.

Suncor stock is a good bet as long as the price of oil remains above US\$35. Keep an eye on it.

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