Suncor (TSX:SU) Is Planning Massive Layoffs: Buy or Sell?

Description

Canada's oil industry is performing at its worst in 2020, while the largest oil sands producer continues its aggressive austerity drive. **Suncor Energy** (TSX:SU)(NYSE:SU) lost its Dividend Aristocrat status after slashing dividends by 55% following the multi-billion dollar loss in the first quarter of this year.

The financial position remains wobbly that the company is preparing to cut the workforce next. Senior management was taking voluntary salary cuts amidst the coronavirus pandemic. Over the next 18 months, Suncor is trimming its employee headcount by 15% to 20%. About 1,950 non-union workers will get the axe.

Economic emergency

Alberta Premier Jason Kenney called on the government to help because energy companies are suffering an "economic emergency." According to the Canadian Association of Petroleum Producers (CAPP), the sector lost more than 28,000 direct and 107,000 indirect jobs in 2020.

Suncor's economic performance is faltering as a result of the pandemic that is destroying energy demand. The layoff plan will begin with the termination of 5% of the workers in six months. Another 10% to 15% will follow within 18 months.

The company is looking to streamline the workforce through early retirements and employees opting for voluntary buyouts. Suncor and other oil giants are under extreme pressure. However, layoffs should increase efficiency and improve productivity.

Aside from cutting dividends, Suncor is scaling down its original 2020 production target of 800,000 to 840,000 barrels of oil equivalent per day. Management brought it down to a range of 680,000 to 710,000 barrels.

For the oil and gas sector, the report by ARC Energy Institute from Calgary estimates reinvestment to fall to $9.5 billion in 2020 compared to $25.3 billion in 2019 or a stunning 64% drop. Similarly, the sector's revenues might decline by 42.6% to $69.3 billion versus last year.

Stock's underperformance

The erstwhile oil sands king had a $26.03 billion market capital when it used to be $35.7 billion in June 2020. As of October 8, 2020, the energy sector is losing by 52.2%. Meanwhile, the Suncor stock is down 58.61% year-to-date versus that of the **TSX**'s -3.1%.

Suncor CEO Mark Little said the second quarter was a period of "unprecedented volatility." The company hopes to make significant progress in reducing costs, which includes massive layoffs. Management expects operating expenses to decline by $1 billion, with a $1.9 billion reduction in capital spending by year-end. The objective is to have $2 billion in free funds by 2025.

Suncor is reducing carbon emissions from oil sands, where the government puts an explicit limit. The company is working to reduce the emissions intensity of its liquid fuels. Suncor's climate change action plan is to increase investments in renewable energy. It has four operational wind power facilities that are generating over 100 megawatts (MW).

Buy or sell

Suncor Energy is a tempting buy at $17.07 per share and a dividend yield of 4.92%. However, the stock price could further plunge, while a dividend trap is waiting. I think selling the stock is the better option. While the rebound is coming for sure, it might take years before Suncor can rise from the gutter.

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