



Suncor Energy (TSX:SU) Stock Is Far Too Risky

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) stock has taken a beating in the market this year. Starting off the year at \$42.56, it's now all the way down to \$15.56—a stunning 63.44% decline. On Monday, the stock gave investors a volatile ride, showing that Suncor's rough 2020 is nowhere near over.

In normal times, Suncor is a great energy stock. As a fully integrated energy company, it extracts profit from extraction all the way to the pump. But 2020 is not a normal year. Oil prices are still vulnerable to the COVID-19 situation, which is rapidly getting worse. Because of this, SU stock is a very risky play.

Earnings in the gutter

Suncor's earnings in 2020 have been terrible so far. In the second quarter, it [lost \\$614 million](#), compared to a \$2.7 billion profit the year before. Operating earnings were negative to the tune of \$1.5 billion. In the second quarter, it had a \$3.5 billion net loss compared to a \$1.4 billion profit in the same quarter a year before. The first quarter loss included some non-recurring, non-cash factors like asset impairment. But operating earnings were still negative to the tune of \$309 million.

Vulnerable to a second wave of COVID-19

It's pretty clear that Suncor's first and second quarter earnings were bad. But what about the possibility of the company turning it around? Oil prices have risen significantly since the spring, after all. Couldn't that help energy companies like Suncor get back on their feet?

Yes, it could. But there's also a good chance that it could not. A lot of what happens to energy companies in 2020 is going to depend on how the "[second wave](#)" of COVID-19 plays out. If we return to a situation resembling March and April, then oil prices will decline. That includes oil derived products like gasoline. One of the factors behind the decline in energy prices this past spring was lower demand for gasoline. Since people were "sheltering at home," they had no reason to drive. So gasoline sales took a big hit.

If large scale, nation-wide lockdowns return, we'll see that happen again. For this reason, Suncor Energy stock is very risky right now. If the COVID-19 situation gets much worse, then the company will suffer low earnings and see its share price decline.

Note the key term: "risky." None of this is meant to predict that Suncor's stock *will* perform poorly over the coming months or years. There's simply a chance of it happening. If COVID-19 lockdowns re-emerge in a big way, then the price of gasoline will tank, which will negatively affect Suncor's earnings. Already we're seeing countries like Israel and Wales re-enter full-on lockdowns. It's not inconceivable that the same could happen in Canada. So SU remains a very risky stock.

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