



Energy Stocks Like Suncor Energy (TSX:SU) Report Next Week: Should You Buy?

Description

Energy stocks such as **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) kick off reporting season next week. Let's see where we're coming from and what we should expect.

Western Texas Intermediate (WTI) oil started the year at approximately \$60 a barrel. But the situation quickly descended into chaos. The pandemic crisis hit demand. An oil price war wreaked havoc on an already unstable market. Oil fell sharply to lows of under \$13 in April. And results out of all oil and gas companies reflected this dismal reality.

Today, oil is holding steady at approximately \$40 a barrel. In fact, the price of oil has held steady at around the \$40 mark since early June. While this is far lower than the \$60 level that oil started the year at, it is at least showing some stability.

Suncor stock is already rallying ahead of Q3 earnings report

Suncor Energy stock was up 6.35% yesterday. The price of oil was also up yesterday. And in the third quarter, oil was trading just above or just below \$40 for the full three months. Let's compare this to the second quarter. In Q2, oil was trading below \$30 for many weeks. And it hit a low of below \$12. Despite this, Suncor Energy generated \$440 million in cash flow from operations in the second quarter.

The consensus expectation for Suncor's Q3 EPS is a loss of \$0.12. This compares to its Q2 loss of \$0.98. It's clearly a big improvement and possibly a sign of things to come.

Suncor Energy adjusts to its new normal

Oil is not at +\$100 per barrel anymore. Those days seem like a distant memory. But oil companies are re-adjusting for this new world of lower oil prices. For example, labour costs have declined dramatically, as have many other costs that go into the expense line. So, if revenue reductions are matched by cost reductions, at least in part, then looking solely at the price of oil is misleading. We

need to be more concerned with net income and cash flows.

Suncor Energy has worked hard at lowering its breakeven point to \$35 per barrel. This breakeven point includes operating costs, sustaining capital, and dividends. Cost reductions have helped Suncor lower its breakeven point. Cost reductions of \$1 billion, or 10%, are targeted for 2020.

The future of Suncor Energy and the oil and gas industry

Here we are with [major oil companies riding a sinking ship](#), desperately trying to hang on. And while the ship does appear to be sinking, many questions remain. Most importantly is the burning question, how long will the transition to clean energy take? Will this be a prolonged process whereby the best oil companies will still play a crucial part in the whole energy landscape? And will the best oil companies eventually figure out ways to clean up their business so that they can be part of a long-term solution?

Also, there's a compelling argument to be made about natural gas. It will very likely be a key transition fuel as we transition to clean energy. And while Suncor Energy derives its revenue mostly from oil, the company also benefits from natural gas prices. This is a time when energy stocks are being shunned. Their valuations are at rock bottom. Going against the general market consensus is difficult. But oil and gas stocks are demonstrating their value.

Motley Fool: The bottom line

Suncor stock remains an undervalued stock to buy ahead of its Q3 earnings report next week. Part of the appeal is the fact that the stock continues to trade below book value. Also, [we are in an environment of stabilizing oil prices](#). This, along with Suncor's success in lowering its breakeven point, provides fundamental support for the stock. 2020 results will begin to show major improvements.

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Date

2025/07/07

Date Created

2020/10/23

Author

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