



Should You Buy Suncor Energy (TSX:SU) Post-Earnings?

Description

Canada's largest integrated oil company **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) is releasing its third-quarter earnings today. The overall tone for the oil industry is bearish, but it is better than what it was in the second quarter. Oil prices have recovered from -\$37/barrel in April to \$38/barrel in October. The oil prices are volatile, as there is uncertainty in the oil demand.

The third quarter is better than the second quarter

Oil demand depends on fuel and gasoline consumption. With rising COVID-19 cases in the U.S., Europe, and Canada, the governments are tightening travel restrictions. The third quarter was far better for oil companies than in the second quarter. Oil demand and oil prices increased as economies reopened, and domestic air travel saw some increase.

In the second quarter, all oil companies reported inventory valuation loss, as they spent more than \$38 per barrel to extract that oil, and then a dip in oil prices forced them to sell it at a lower price. In the third quarter, these inventory losses reduced as oil prices surged, and companies cut their costs.

BP ([NYSE:BP](#)) reported a loss of US\$0.5 billion in the [third quarter](#) against US\$16.8 billion in the previous quarter of 2020. This stark difference was because of the absence of impairments and writedowns. After adjusting for fair value and non-operating cost, BP made a net profit of US\$100 million.

Will Suncor post a profit in the third quarter?

In the second quarter, Suncor reported a net loss of \$614 million, after excluding \$397 million in inventory loss. But it included \$478 million in foreign exchange gain. Its inventory losses have slowed in the third quarter, which could result in a reduction in losses.

However, Suncor might not return to profit as early as the third quarter. The analysts expect Suncor to report -\$0.14 EPS in the third quarter. Even investors are bearish around the third-quarter earnings,

with the stock down 4% so far this week. Moreover, the second wave of the pandemic could plateau Suncor's recovery in the fourth quarter.

Should you buy Suncor stock?

The oil stocks have been falling. Even after BP's slightly better earnings, its stock fell 1.8% on the London Stock Exchange. Oil companies around the world need to show a lot more profit to revive investor confidence.

If you are looking for a five- to 10-year investment horizon, [Suncor can deliver value](#). That is the very reason why Warren Buffett purchased the stock. Unlike **Air Canada**, Suncor may not go bankrupt, as its losses are controlled. Its inventories have a long life. The only problem is storage, as its products are highly flammable. Suncor's losses are slowing with an increase in demand.

Suncor has accelerated its move to a Suncor 4.0 program that improves its overall cost structure. The new program will use a smaller workforce and leverage improved data technology and business processes to improve operating efficiency. The implementation of this program could take a year. This will help it reduce losses in a downturn and improve profits in an upturn, making it more competitive.

When the oil demand recovers in the next two to three years, the new Suncor would probably be more profitable. Moreover, it has cut its dividend per share by 55%. In the recovery phase, the company would increase its dividend per share. After recovery, the next 10-year outlook is bright. But this outlook hinges on how it withstands the coming two years of a downturn.

Suncor in the long term

Warren Buffett has less than \$320 million worth of Suncor shares. In the best-case scenario, Suncor won't cut dividends any further, and its stock will recover to its pre-pandemic level in five years. From the sixth year onwards, it might start increasing its dividend per share. If you invest \$5,000 in this stock, you can earn \$11,295 in five years (\$1,295 in dividend income and \$10,000 in capital appreciation).

For the next two years, you can earn \$518 in total dividend income. While this income might look good, better Dividend Aristocrats are trading on the Toronto Stock Exchange that are still earning profits and can grow dividends even in a downturn.

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