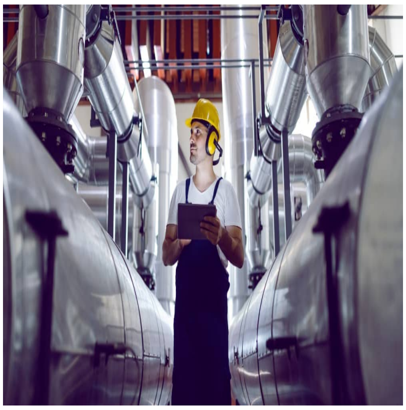

Is Suncor (TSX:SU) Stock Headed to $0?

Description

Suncor (TSX:SU)(NYSE:SU) stock is having a rough 2020. Shares are down 60% since the year began. Some wonder whether the stock will sink all the way to $0.

Not so fast. While the business is struggling, it still owns some of the best energy assets on the continent, perhaps the world.

Suncor also has a secret weapon: it's an *integrated* oil company. That confers special benefits that few competitors possess.

This stock is special

Most people think of Suncor as an energy producer. Indeed, it has massive projects that produce several types of fossil fuels. But the company is more complex than that.

"Suncor is what we consider an integrated oil company," I wrote earlier this year. "That means they control the entire value chain, from exploration and production to transportation and refining."

This isn't a model that anyone can follow. It costs billions to replicate, and in most cases, regulations make the feat impossible.

Consider Suncor's pipeline and refinery assets. These assets take years to construct, and can be incredibly expensive. Some pipelines cost $5 million per kilometer to build. No competitors will look to compete with Suncor directly.

The biggest advantage is that Suncor uses these assets to transport and refine its own production. That's a big deal.

In 2018, Canada's pipeline capacity fell to zero, preventing some producers from reaching the market. With its own pipeline infrastructure, Suncor avoided the whole mess.

On the refinery side, benefits come in the form of reduced volatility. When oil prices fall, energy stocks suffer. But in these price environments, refining margins often *rise*. That insulates any company that also owns refinery assets.

But can Suncor survive?

Commodities are a tough business. When market prices rise, commodity producers win. When market prices fall, producers are directly hit.

It’s important to understand this, for no matter how many competitive advantages Suncor has, the stock will still live or die based on what happens to the price of oil. In 2020, that’s been a painful story.

At the start of the year, oil prices were around US$60 per barrel. Now, they’re just under US$40 per barrel. It’s no wonder that oil stocks have been hit hard.

The biggest headwind is the coronavirus. Global demand is sharply lower due to a dip in consumption, vehicle traffic, and air travel. You may think this is a short-term phenomenon, but you’d be wrong.

“In its annual outlook last month, **BP** said that globally, we may have passed peak oil demand last year, as fuel consumption may never recover from the pandemic-inflicted decline,” reports *Oil Price*.

So, the COVID-19 crisis may have kickstarted a global shift away from oil. That’ll hit Suncor where it hurts most.

Even worse, another wave of the pandemic could result in another down-step in demand. The IEA recently warned that “those wishing to bring about a tighter oil market are looking at a moving target.”

Will Suncor stock go to zero? Not anytime soon. Its existing competitive advantages and access to capital will make it an industry survivor. But long term, expect the share price to trend in that direction.

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Date
2025/08/26
Date Created
2020/11/01
Author
rvanzo