# Suncor (TSX:SU) Stock Drops 62%: Here's What to Do

### Description

Shares of the beleaguered oil company **Suncor Energy** (TSX:SU)(NYSE:SU) are down about 62% year to date. The significant erosion in demand, supply glut, and uncertain outlook amid the COVID-19 pandemic weighed heavily on its financials, as the company lost billions of dollars in value.



However, the massive decline in Suncor stock must have caught your eye, especially if you are one of those investors who is looking to go against the tide for higher rewards. However, before you jump to any conclusion and decide what to do with Suncor Energy stock, let's take a closer look to ascertain what's in the offing for this energy giant.

## Near-term challenges

One of the biggest challenges that energy companies are facing right now is the demand-supply imbalance owing to the extensive global crude inventories. Meanwhile, fear of another lockdown amid the coronavirus's continued spread is taking a toll on demand.

While the economic activities are gradually picking up with the unlocking measures, it is estimated that it could take at least 24-36 months before you get a balance between demand and supply. OPEC+ nations must play a more significant role and actively manage the oil market and prices.

## Glimmer of hope

Suncor Energy's recent quarterly financial performance showed strong sequential improvement. The company's operating loss narrowed to $302 million in 3Q compared to $1.5 billion in 2Q. Meanwhile, its funds from operations increased to $1.2 billion from $488 million.

Moreover, the company continues to reduce operating and capital costs and remains on track to lower its operating costs by $1 billion in 2020. Also, a strong recovery in demand in two of the world's largest oil-consuming nations (India and China) brings some respite.

Investors should note that Suncor Energy's assets have a long life and low-decline rate, proving a strong competitive advantage. Besides, its integrated business model reduces some of the price risks. Amid challenges, Suncor has diverted its focus on the production of higher value synthetic crude oil barrels. The production mix shift optimizes its per-barrel margin and supports cash flows.

## Final thoughts

The uncertain energy outlook is likely to restrict the upside in shares of energy companies in the near term. However, the longer-term outlook for energy companies remains bright and should support the recovery in Suncor Energy stock.

Moreover, there are lots of things to like about Suncor Energy stock. The significant decline in its share price makes it an attractive value play. The company is trading at a price-to-tangible book value of 0.7, which is well below its historical average of 1.5. Further, its forward EV-to-EBITDA ratio of six also compares favourably to its historical average.

As the demand picks up, I believe Suncor Energy stock could emerge as the top performer in the energy space, thanks to its long-life assets and integrated business. I see a significant upside in Suncor Energy stock over the medium- to long-term period. Investors are also likely to benefit from Suncor's attractive dividend yield of 5.4%.



However, investors with a short-term investment outlook should avoid Suncor as high volatility could lead to knee-jerk reactions and higher losses.

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