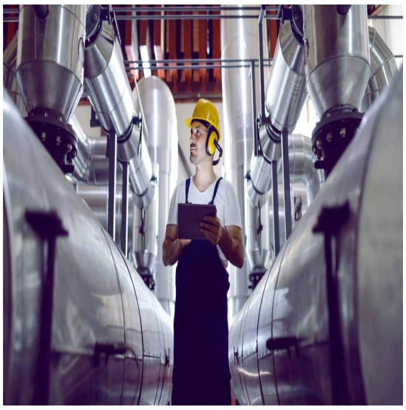

This Is Scary: Suncor (TSX:SU) Stock Could Tumble Next Month

Description

Suncor (TSX:SU)(NYSE:SU) stock spiked in November, with shares rising around 30%. While that's a welcome rebound, the stock remains 50% lower than when the year started.

Some investors expect the rebound the continue, but I have bad news: this stock could crash hard next month.

Here are the details

In some ways, the story of COVID-19 is the story of Suncor.

At the start of the year, SU shares traded at $42. When the coronavirus panic began, shares plummeted to just $16 — one of the most dramatic falls in company history.

Then something weird happened. In the following months, markets rebounded higher — leaving many investors mind boggled since the economic impacts of COVID-19 were just beginning.

Suncor stock was an exception. Shares turned higher a bit, but aren't much higher than their pandemic lows.

Why did other stocks rally, but not Suncor? One look at oil prices tells you why.

Brent crude oil was valued at US$65 per barrel in early January. Today, they remain under US$45 per barrel. As an oil producer, Suncor was directly hit. Most of its revenues come from selling oil. If the price of oil is 30% lower, sales should fall by 30%.

Profits, meanwhile, should fall by much more. That's because the company's breakeven cost is between US$40 and US$50 per barrel. Profits are slim to none right now.

"Suncor reported a third-quarter operating loss of $302 million as revenue fell 34% to $6.5 billion compared with the same period of 2019, when it earned $1.114 billion on revenue of $9.9 billion," reports

Bloomberg. "Suncor had an operating loss of $1.489 billion in the second quarter and production was 655,500 boe/d."

Some investors think the pain is about to subside. They're wrong.

Suncor is headed for pain

The biggest reason why oil prices are lower this year is the coronavirus pandemic. There's no denying that. Shutdowns sent oil demand tumbling. Meanwhile, production remained elevated given huge chunks of the industry have very low operating costs.

Dwindling demand combined with high supply is a recipe for lower prices. Unfortunately, that equation won't be eliminated anytime soon.

"As new COVID-19 infection cases continued to rise during October in the U.S. and Europe, forcing governments to re-introduce a number of restrictive measures, various fuels including transportation fuel are thought to bear the brunt going forward," OPEC stressed in its November report.

Meanwhile, supply cuts look nowhere in sight. Almost every company is producing as much as possible to stay alive. They're willing to keep pumping as long as they cover their cash costs. Long-term economic profits are of no concern right now.

You can see where this is headed for Suncor. The company owns diversified assets like refineries and pipelines, but at the end of the day, this business will live or die based on oil prices.

Next month, we could see another hard pricing dip. Long term, the picture looks no brighter. **BP** released a report this fall arguing that global oil demand will *never* reach 2019 levels again. That comes at a time when countries are rushing to get as much oil out of the ground as possible.

Next month could be tough for Suncor, and the following years won't get any better.

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