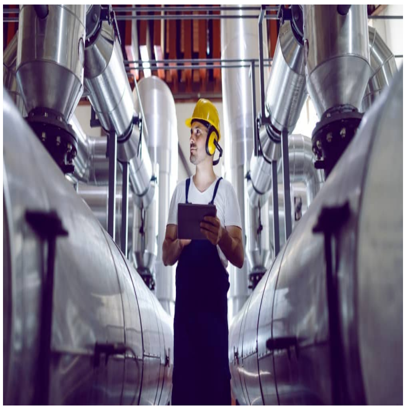

Suncor (TSX:SU) Stock at $23.5: Should You Buy, Sell or Hold?

Description

Canada's energy sector has been under the pump in 2020. The COVID-19 pandemic coupled with the oil price war drove crude oil prices significantly lower this year. As oil producers were plagued with oversupply and oil production turned unprofitable, shares of **Suncor** (TSX:SU)(NYSE:SU) and peers lost significant value in the first half of 2020.

Suncor cut its dividend payout by 55%, which exacerbated the sell-off. Its share price fell to a multi-year low of $14.02 and has since recovered to trade at $23.5, which is still 45% below its 52-week high.

Suncor shares have gained momentum since November after the vaccine trials by **Pfizer** and **Moderna** showed promising results. Let's take a look to see whether Suncor remains a good buy right now.

Suncor focuses on lowering costs

Suncor exited Q3 with a refinery utilization of 95%. Its downstream operations delivered solid results and the company is on track with its cost and capital spending. While there are operational challenges, Suncor's integrated model allows it to fund its capital expenditure, pay dividends, and lower debt.

In March, Suncor said it plans to reduce operating costs by $1 billion in 2020, compared to 2019. It spent $910 million in capital expenditure in Q3 increasing its year-to-date spending to $2.9 billion, which positions the company to deliver a capital plan with its guidance range of $3.6 billion and $4 billion.

During the earnings call, Suncor CFO Alister Cowan said, "Within this reduced capital guidance range, we continue to invest in assets to improve the efficiency of our business, reduce future operating and sustaining capital costs and drive toward a $2 billion incremental free funds flow target by 2025."

In Q3, Suncor generated $1.25 billion of operating cash flow easily covering its capital expenditures and dividends. Suncor said it could cover operating costs if oil trades at US$25/bbl, and at a price of US$30/bbl it can cover operating costs as well as capital expenditure. At a price of US$35/bbl, the company can also cover dividend payouts.

In Q3, Suncor returned $320 million to shareholders and was able to deleverage its balance sheet to end the quarter with a total debt to capitalization ratio of 36.8%.

What's next for Suncor?

Suncor plans to reduce its overall workforce by 10% to 15% in the next 18 months. These layoffs are associated with process and technology improvements and are part of the company's goal to achieve $2 billion in free funds flows from operations.

Suncor is optimistic its downstream business will lead the recovery and if oil prices remain over US$40/bbl, it expects to increase capital expenditure between 10% to 15% while production will also move higher by 10% in 2021.

Suncor sales are forecast to fall by 34% year-over-year to $25.66 billion in 2020 while earnings per loss is estimated at $1.58. Bay Street analysts expect revenue growth at 19.7% at $30.72 billion in 2021, and earnings could climb to $0.07 in 2021 as well.

Analysts tracking the stock have a 12-month average target price of $27 which is 15% above the current trading price. After accounting for dividend yields, annual returns will be closer to 20%.

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