



## 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%.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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2. TSX:SU (Suncor Energy Inc.)

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