Stocks to Avoid: This Canadian Stock Has Been Treading Water for 16 Years

Description

Any stock that treads water for the better part of two decades is one investors need to take extreme caution with. **Suncor Energy Inc** (TSX:SU)(NYSE:SU) is certainly one of those stocks.

Whether the next 16 years looks better than the last remains to be seen. Here's my take on why long-term investors ought to put their money to work elsewhere. At these levels, Suncor is cheap, but currently represents a value trap. Here's why.

Fundamentals don't look good

Suncor's core fundamentals continue to be under pressure, despite rising commodity prices. This reality leads many value investors to question whether this stock can return to its former glory. In the height of the commodity bubble prior to the financial crisis, shares of Suncor were well more than three times higher than today.

Levered free cash flow is negative, and the company's operating and profit margin are ghastly. Debt continues to be an issue for oil producers like Suncor that levered up to go on acquisition sprees at the height of the commodity price bubble. Even on a forward-looking basis, the company is trading at over 100 times earnings. Consequently, it's hard to make the argument this stock is cheap at these levels.

Suncor needs substantially higher oil prices to turn the profit necessary to get investors interested in this stock again. Furthermore, oil prices will need to remain high for the company's stock price to rally in a similar way as we've seen other sectors. This type of scenario is not likely. Accordingly, I don't see substantial improvement in the way of Suncor's fundamentals anytime soon.

Pipeline issues take the cost argument out of the equation

Suncor has indeed done a good job of controlling costs in recent years. The company's technological advancements and investments in operational efficiency have improved the breakeven level for this company. These are positive catalysts for bullish investors, and certainly should be given some credence. Indeed, Suncor may be one of the best companies in Canada's oil patch.

That said, ongoing pipeline issues in North America make Suncor's stock untenable for the foreseeable future. Until capacity increases and Canada diversifies its clientele, Suncor is going to be stuck shipping oil at or near its current capacity for the long-term.

This means that investors really have no pathway to growth other than a long-term commodity price rise. Production increases are worthless if end product ends up in storage. Margins actually deteriorate in such a scenario due to storage costs. Suncor is a pure price-taker in a sector with no ability to grow and terrible long-term fundamentals. Enough said.

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Date
2025/07/29
Date Created
2021/01/03
Author
chrismacdonald