Will Suncor (TSX:SU) Stock Double or Reach $0?

Description

Suncor (TSX:SU) stock is controversial. Some analysts believe it'll double. Others think it'll sink to $0.

Understand what's going on and you could make a nice profit.

Here's what's going on

The COVID-19 crisis upended oil markets in 2020. Because the price of oil is the most important factor for Suncor's profitability, these seismic shifts took a toll.

The major issue was suppressed demand. Jets were grounded. Commutes were halted. School was cancelled. All the things in daily life that drive oil consumption suddenly went dark. Unsurprisingly, oil prices crashed alongside the crashing price of Suncor stock. Shares fell 40% last year.

The fascinating part is that oil *supply* didn't falter much. You'd think lower prices would mean lower production, but that simply wasn't the case. The cost of pumping oil has fallen so much in recent years that energy firms kept volumes steady throughout the demand drop. That only exacerbated the pricing declines.

Here's the bad news: 2020 may be a harbinger of things to come.

"Fossil fuels will never return to its pre-pandemic growth curve," says global consultancy McKinsey & Company. "Over the long-term, the impacts of behavioural shifts due to COVID-19 are minor compared to known long-term shifts such as decreasing car ownership, growing fuel efficiencies and a trend towards electric vehicles, whose impact is estimated to be three-to-nine times higher than the pandemic's by 2050."

This is terrible news for Suncor. Unfortunately, some research suggests peak oil demand has already passed.

"In earlier editions of the **BP** outlook, global oil demand was expected to continue rising steadily," reports

Carbon Brief. However, the latest report “shows that oil demand would never surpass levels seen in 2019.”

Where is Suncor stock headed?

It’s important to note that Suncor isn’t totally dependent on oil production. It owns a large portfolio of midstream and downstream assets that are somewhat insulated from short-term gyrations in energy markets. Long term, however, any oil and gas infrastructure needs healthy market pricing to remain viable, at least at former rates of profitability.

Right now, oil companies are stuck between a rock and a hard place. There’s no doubt that demand is set for a multi-decade decline. But whether that decline starts this year or next decade is still unknown. There’s a ticking time bomb, and investors are getting nervous.

“Oil isn’t going away completely, but it is being replaced by renewables,” I recently explained. “Global investment in renewables topped $1.5 trillion over the last five years. Investment is set to exceed $10 trillion over the next decade.”

There’s no doubt what Suncor’s current strategy is. There’s almost no appetite for capital investment in new mega-projects. It’s all about controlling costs and boosting cash flows to get the most out of a dying asset base.

Will Suncor stock double or go to zero? The decade ahead will likely prove somewhere in between. The company’s assets will still be worth billions of dollars, but the market may prove unwilling finance any long-term bets, leaving the business to be slowly sucked dry. I’m not jumping in.

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