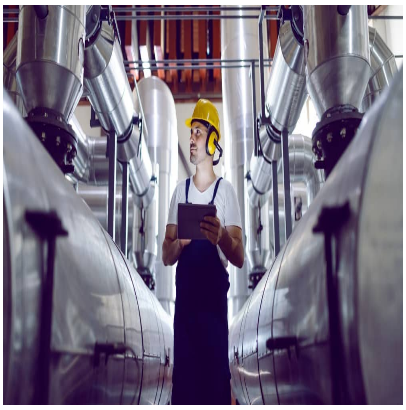

Suncor (TSX:SU) Stock: Should You Buy, Sell, or Hold?

Description

Stocks in the energy sector have taken investors on a wild ride in the last 14 months. The COVID-19 pandemic decimated global economies, as countries had to shut their borders and imposed economic lockdowns. This meant demand for crude oil fell off a cliff, driving oil prices significantly lower. Shares of **Suncor** (TSX:SU)(NYSE:SU) and peer energy companies grossly underperformed the broader markets as a result.

Suncor stock in fact fell from $42.5 in December 2019 to a multi-year low of $15 in March 2020. It has since recovered to currently trade at $25.37 a share. Investors are optimistic that the vaccination rollout will coincide with an increase in demand for oil, driving commodity prices as well as profit margins higher by the end of 2021.

Does this make Suncor stock a good investment right now?

Suncor's recent quarterly results

In the fourth quarter of 2020, Suncor's funds from operations increased to $1.22 billion, or $0.80 per share, up from $1.16 billion in the third quarter of 2020. Funds from operations were $2.553 billion, or $1.66 per share, in Q4 of 2019. Suncor confirmed its funds from operations in Q4 exceeded its sustaining capital and dividend payments.

Operating cash flow in Q4 was $814 million, or $0.53 per share, compared to $2.30 billion, or $1.5 per share, in the prior-year quarter. In the December quarter, Suncor reported an operating loss of $302 million, or $0.09 per share lower than its loss of $302 million, or $0.20, in Q3 of 2020. However, in the prior-year period, Suncor reported an operating profit of $782 million, or $0.51 per share.

Suncor took several steps to preserve its financial health by increasing liquidity, lowering its cash breakeven costs, as well as achieving its operating cost- and capital-reduction targets. Suncor, in fact, exceeded its previously announced operating cost-reduction target. In 2020, the company reduced annual operating costs by $1.3 billion or 12% year over year. It also reduced capital expenditures by 33%, or $1.9 billion, in the last year.

Suncor stock has a forward yield of 3.34%

In 2020, Suncor cut its dividends by 55% due to falling profit margins. Last year, the company reported a cumulative net loss of $4.31 billion compared to a net income of $2.9 billion in 2019.

Despite the dividend cut, it currently provides investors with a forward yield of 3.34%. So, a $1,000 investment in Suncor stock will help you generate $33.4 in annual dividends.

Oil prices are expected to gain pace on the back of rising demand, and this should hold Suncor in good stead and avoid another dividend cut. Investment bank **Goldman Sachs** recently revealed it is bullish on oil prices going forward: “We forecast a larger rebound in oil demand this summer than OPEC and the IEA, requiring an additional two mb/d increase in OPEC+ production from July to October.”

Goldman Sachs expects inventories to normalize towards the end of 2021, making Suncor stock an attractive bet right now.

The Foolish takeaway

Suncor has managed to survive a tricky 14-month period amid macro-economic sluggishness and uncertainty. The company has focused on lowering costs and capital expenditure to boost its liquidity position and slashed its dividends as well. However, the COVID-19 pandemic continues to weigh heavily on the global economy, and the slow rollout of vaccines in most countries might delay an economic recovery.

This makes Suncor a risky buy right now considering there are several other companies that you can bet on, as they are fairly recession-proof or immune to the dreaded virus.

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Date
2025/07/24
Date Created
2021/04/26
Author
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