Why My Outlook on Suncor Energy Stock Is Changing

Description

Energy investors have certainly seen a fair share of volatility in the market of late. Indeed, investors in **Suncor Energy** (TSX:SU)(NYSE:SU) and Suncor Energy stock have good reason to be concerned about oil price movements in recent weeks.

Indeed, energy stocks such as Suncor have enjoyed a boom over the past year, as the outlook for energy demand has steadily improved. Investors have started to look through the pandemic to the other side. Accordingly, Suncor Energy stock has outperformed many higher-growth sectors in recent quarters, as investors rebalanced their portfolio.

However, since hitting a high of around US$75 per barrel, West Texas Intermediate (WTI) oil has now trended toward US$60 per barrel in recent days. For commodity-centric producers like Suncor, these moves are detrimental to the long-term outlook investors have on the broader sector and specific stocks. Accordingly, investors may need to revise their outlook for Suncor should these conditions persist.

Here’s why my view on Suncor Energy stock is starting to change.

Reduced output forecast bearish for Suncor Energy stock

Suncor has recently reduced its production forecast for the Fort Hills mine. This forecast full-year production cut to the 45,000-55,000 barrels/day range from the 65,000-85,000 BPD range is significant. Indeed, investors relying on improved production forecasts have had to reduce their earnings expectations for this large Canadian oil producer.

This reduced production forecast is a result of some additional work needed at the company’s Fort Hills mine. Instability in the southern side of the mine has required the need for overburden removal. This process should be wrapped up by the end of the year. However, investors worried about whether oil prices will remain above US$60 per barrel may be concerned that Suncor Energy stock could be missing out on a great near-term cash flow opportunity.

Accordingly, Suncor Energy stock has sold off approximately 15% over the past month. Investors looking at energy plays appear to be focusing on other green energy sectors, and higher-growth stocks. Companies like Suncor with reduced production forecasts may simply not be as attractive as faster-growing peers.

Fundamentals are still strong but may become stretched

In this current oil price environment, Suncor Energy stock looks like a decent store of value. The company currently trades at 22-times earnings, which isn't dirt-cheap but certainly isn't expensive. Investors bullish on the outlook for oil may rightly decide to pick up shares of Suncor at these levels. After all, given the valuations of most other sectors, energy looks like a bargain right now.

Additionally, Suncor's 3.7% dividend yield pays investors to be patient. Longer-term investors with the ability to be patient may look at Suncor as a bond proxy with impressive upside in the right economic environment.

However, those with a more pessimistic medium- to long-term view may look for other options today. I'm of the view that Suncor's fundamentals may indeed become stretched, should oil breach the US$60 mark and head substantially lower.

Bottom line

The value argument with Suncor Energy stock is an increasingly difficult one to make today. The general market consensus on energy is one that's becoming muddied today. Accordingly, I'm being patient with Suncor Energy stock and will take a harder look at this company on any dips moving forward.

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