



Suncor Energy and Air Canada Stock: Should You Buy, Hold, or Sell?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) and **Air Canada** ([TSX:AC](#)) are two non-tech stocks that became popular after the pandemic. They took a deep hit in the March 2020 [market selloff](#) and saw an equally strong rebound when vaccine news surfaced. They were the recovery stocks of the pandemic, and if you still hold them, it is time to take profits. Here's why.

About Suncor Energy

Suncor Energy is a cyclical stock, as its share price depends on the oil price. Oil is a commodity whose price is influenced by demand and supply forces and geopolitical relations between oil-producing and oil-consuming countries. Suncor produces oil at the cost of US\$40/barrel. It has no control over the oil price. So, as long as the oil price is above the cost, it makes a profit.

Should you buy, hold, or sell Suncor Energy stock?

The sanctions on Russian oil have created a favourable atmosphere for Suncor, as many European countries lost their significant source of cheap oil. Hence, oil prices shot up to more than US\$125/barrel, bringing windfall gains to oil companies. But such a high oil price is unsustainable, as it will boost inflation and pull down demand.

Historical data has shown that oil is one of the primary causes of inflation, and most recessions have pulled down oil prices because slowing economic growth reduced demand. Oil is currently hovering below US\$95/barrel, as Europe is looking to replace Russian oil with Iran oil by removing sanctions on Iran.

While any escalation in war could boost oil prices to new highs, the looming recession could pull down demand. The market has already priced in the US\$125 oil price that pushed Suncor stock to its four-year high of \$53. The stock has dipped and reached a range of \$39-\$49, representing upside of 10% from the current trading price at the time of the writing. The only way stock price could cross \$49 is when there is another supply shock.

If you bought Suncor stock in the 2020 dip below \$20/share, you have more than doubled your money. This is a good time to book profits to invest elsewhere instead of waiting for it to make a new high. The stock might lose value if Iran's sanction is lifted.

About Air Canada

The scenario is different in the airline industry. Post pandemic, airlines are struggling to get back to the pre-pandemic capacity. Air Canada faces operational bottlenecks after almost two years of weak operations forced it to downsize. The news is filled with consumer complaints about Air Canada from flight cancellations to denying compensation.

Despite this chaos, the return of air travel brought good news for Air Canada shareholders. The airline [reported](#) an operating cash flow of \$1.08 billion in the second quarter after burning over a billion dollars of cash every quarter for two years. It narrowed its net loss to \$386 million from \$1.16 billion in the previous year's quarter. It's better to have a busy airport than an empty airport.

While fundamentals are improving, Air Canada's stock is down almost 20% year to date, as investor risk appetite reduced. The airline has a huge net debt of \$7 billion sitting on its balance sheet. If air travel demand remains stable, Air Canada could gradually return to profit in five to six years. But a looming recession could once again sidetrack Air Canada's recovery. A recession could reduce leisure spending, and most airline passengers are leisure travelers.

Should you buy, hold, or sell Air Canada stock?

If you purchased Air Canada stock above the \$20 price, you are better off selling the [airline stock](#) and investing that money in a stock with low debt and sustainable profits on its income statement. Even if the airline doesn't go bankrupt, the stock is unlikely to surge above the \$24-\$26 price for the next three to five years. The stock will remain range bound because of the debt, which means there is no attractive reward for holding this risky stock.

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pujatayal

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