Is Suncor (TSX:SU) Stock a Buy Before Earnings?

Description

The earnings season is about to ramp up. This week, there are several high-profile **TSX**-listed companies scheduled to report earnings. Among them, **Suncor** (TSX:CNR)(NYSE:CNI) is on deck to report second quarter results after the bell on Wednesday.

default watermark

This quarter will be among the most watched in recent history. Investors will finally begin to grasp the impacts of COVID-19 mitigation efforts and the subsequent economic shutdown.

After being among the only majors to announce a dividend cut, is Suncor a buy before earnings? Let's take a look.

Q2 expectations

Analysts are expecting Suncor to post a net loss of $0.65 per share and revenue of $4.84 billion. This represents a drop in revenue of 52.10% and compares to earnings per share of $0.80 in the second quarter of 2019.

Looking forward, Canada's largest integrated oil company is expected to see a full-year net loss of $0.45 per share, before posting positive earnings of $0.55 per share in 2021. To put this into perspective, Suncor generated earnings of $2.79 in 2019. Revenue is expected to drop by 35.10% in 2020 before rebounding by 22.70% in 2021.

These disappointing numbers are to be expected. The economic shutdown has led to record low oil prices, and although they are off lows, they are still trading at a big discount to pre-pandemic levels. It also means, very few companies are generating positive cash flows. For context, Suncor requires West Texas Intermediate (WTI) prices of ~$35 per barrel to be cash flow positive.

Given this, it is not surprising that Suncor took the drastic measure of cutting the dividend back in March. The cut effectively ended its 17-year dividend growth streak and came only a couple of months after announcing a dividend raise.

As a result, Suncor's share price is down by 45.86% in 2020 and is among the worst-performing oil and gas stocks in North America.

Historical performance

Typically a strong performer, Suncor's performance relative to estimates has been spotty as of late. Over the past 12 quarters, Suncor's has only missed earnings expectations four times. However, it has missed in three of the past six quarters.

In terms of revenue, it has been beat seven times and missed on five occasions. Worth noting, the company has surprised to the upside over the past three quarters.

Somewhat surprisingly, revisions have been trending upwards. This is likely due to the fact that oil prices are strengthening. Over the past 90 days, six analysts have revised upwards versus only three downward revisions.

Given these upwards revisions, an earnings beat may be just what Suncor needs to break out of its downward trend.

default watermark

Is Suncor a buy?

At current prices, Suncor looks to be offering investors an attractive entry point. That said, the company is highly dependent on a rebound in oil prices. Unfortunately, a meaningful rebound may not happen any time soon.

As we are seeing in the U.S., a surge in COVID-19 cases can lead to a pullback on economic re-opening efforts. Given this, the market dynamics point to pressured oil prices for the foreseeable future. Even if Suncor beats on earnings, any jump in share price may be short-lived.

Those pointing to cheap valuations must also be cognizant of the fact that traditional valuation metrics such as the P/E ratio, are not reflective of future performance. Most are historical metrics that will look quite different in a year from now when the full impacts of COVID-19 are reflected. Case in point, Suncor is trading at a forward P/E of 41.82 based on 2021 estimates. It doesn't look so cheap now, does it?

At this point, I see little reason to rush into the oil & gas industry. I have a neutral view on Suncor. It will take a significant bump in oil prices for me to consider adding to my position.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)

2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/06/29
Date Created
2020/07/21
Author
mlitalien

default watermark

default watermark