



The 1 Simple Reason Warren Buffett Is Buying Suncor Energy Inc.

Description

No doubt about it, Warren Buffett is likely the greatest investor in history.

Over the past 50 years, Buffett has transformed **Berkshire Hathaway Inc.** from a small textile manufacturer into a massive business conglomerate. If you had invested \$1,000 in shares back in 1964, your stake would be worth around \$16 million today.

Based on his remarkable track record, a lot of investors pay close attention to what stocks Buffett is buying. And right now, he's making a big bet on Canadian oil giant **Suncor Energy** ([TSX: SU](#))([NYSE: SU](#)).

Why is Warren Buffett buying Suncor? The 1 chart you have to see...

Over the past couple of years, Buffett has been quietly accumulating a position in the Calgary-based oil sands major. As of June, Berkshire Hathaway owned 1.6 million Suncor shares valued at around US\$700 million, up 27% quarter-over-quarter.

At first glance, Buffett's Suncor investment is a little puzzling. Is it because the company is growing production faster than rivals? Is it because the stock is cheap? No, Suncor is actually expanding at a slower pace and trades at a premium relative to its peers.

What could the Oracle possibly see in Suncor? While I'm sure Mr. Buffett does a detailed analysis on every one of his investments, his thesis could probably be summed up by this one simple chart:

[suncorenergysharesoutstanding\[1\]](#)

Source: [YCharts.com](#).

What does this chart show? Sure, on the surface it indicates that the company has repurchased an enormous amount of stock. However, if you read between the lines, it also shows that Suncor executives are incredibly disciplined capital allocators.

Since taking over in 2011, Chief Executive Steve Williams has dialed back the company's expansion plans. Over the past three years he has abandoned his predecessor's growth targets and scrapped expensive upgrading projects. Rather than embark on bold new projects, Williams has focused on the unglamorous job of squeezing more barrels of production out of existing operations.

Today at Suncor, every dollar reinvested back into the business must earn a sufficient return or be given back to shareholders. This policy has freed up an enormous amount of capital for investors. As shown above, Williams has repurchased over 12% of the company's outstanding shares and more than doubled the size of the quarterly dividend.

This is a good policy from a shareholder prospective. The company's oil sand properties, Suncor's main business, are really marginal assets. Why put more capital into these low-return ventures? It's a far better proposition to give these funds back to investors where they can earn better profits elsewhere.

While this might all sound like common sense, this type of rational thinking is sadly absent in most boardrooms. Most managers would prefer to preside over a larger business empire even if such expansion makes little business sense. But happy executives never funded anyone's retirement.

Williams is no empire builder. He's a good capital allocator, a philosophy he likely adopted during his time at **Exxon Mobil Corporation** (another Buffett holding by the way).

The bottom line is that Buffett only invests in companies managed by executives with integrity. Dividend hikes and share buybacks are an easy way to determine if the business is being run in the interests of shareholders. That's definitely the case at Suncor today.

CATEGORY

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Author

rbailleul

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