



Billionaire Warren Buffett Bought \$700 Million of Suncor Energy Inc.; Should You Buy, Too?

Description

It's one of my favourite ways to invest in the Alberta oil boom — and apparently legendary investor Warren Buffett agrees with me.

The company is **Suncor Energy Inc** ([TSX: SU](#)) ([NYSE: SU](#)). It's the country's biggest oil producer. Suncor alone accounts for more than 20% of Alberta's oil sands output.

However, it's an odd bet for Buffett. Suncor isn't growing production faster than rivals. Neither is the stock obviously cheap. In fact, Suncor actually trades at a premium relative to its peers.

What could the Oracle possibly see in Suncor? Since taking over in 2011, CEO Steve Williams has dialed back the company's growth plans. He has abandoned his predecessor's growth targets and scrapped expensive upgrading projects. Rather than embark on bold new ventures, Williams has focused on the boring job of squeezing more barrels 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. Since 2011, Williams has repurchased over 12% of the company's outstanding shares and more than doubled the size of the quarterly dividend.

[suncor dividend](#) unknown

Source: Suncor Energy Inc Investor Presentation (October 2014)

It's counter intuitive, but this is a good policy from a shareholder point of view. The firm's oil sand assets, Suncor's main business, aren't really that profitable. 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 returns elsewhere.

And that bet appears to be paying off. Suncor posted \$3.6 billion in free cash flow for the 12 months ended June 30, a 66% bump year-over-year. Investors have responded by pushing the stock up 7%

year-to-date, handily beating the **S&P/TSX Energy Index** over that same period.

Buffett likes the new plan, too. In a recent SEC filing, he disclosed that he owned 16.5 million Suncor shares. As of June, his total investment stake was valued at US\$702 million.

Wall Street is also backing Suncor. As my colleague Matt DiLallo [wrote about earlier this month](#), Citi Research upgraded the stock on an improving outlook for the oil sands. A number of notable hedge fund managers — including Steve Cohen, Ray Dalio, and D.E. Shaw — have been building stakes in the stock as well.

If the world's smartest money managers are buying Suncor, doesn't it deserve a spot in your portfolio, too?

CATEGORY

1. Energy Stocks
2. Investing

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