



## Is Warren Buffett About to Sell His Stake in Suncor Energy Inc.?

### Description

It was about 16 months ago that Warren Buffett bought nearly 18 million shares in Canadian oil producer **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) through **Berkshire Hathaway**. Buffett paid in the low \$30s apiece for his initial stake in Suncor Energy, which is now trading at almost \$39. This is a decent rise for a stock that is currently under pressure from slumping oil prices; will this push Buffett to sell off some or all of his holding in Suncor Energy?

Buffett has already adjusted Berkshire Hathaway's position in Suncor Energy a few times. Last December he sold about 5 million shares for a decent profit, and then increased his position in Q2 2014. Berkshire Hathaway current holds over 16 million Suncor Energy shares.

### Canadian vs U.S. oil production

Buffett's initial stake in Suncor was cheered by Canadian energy sector participants because the sector was in the midst of a few years of relative underperformance. Canadian energy companies were very recently thought of as one of the most promising investment opportunities, but things have taken a bit of a turn since 2008 when U.S. shale production increased, adding new competition.

In many cases investors sold their positions in Canadian energy companies and instead bought U.S. producers, who were undergoing more rapid growth due to their advantages against the Canadian competition – namely lower production costs and better transportation infrastructure.

The advantages American companies had over Canadian companies still exist to some point, but the climate is rapidly changing. In Canada, oil production costs are declining thanks to technological advances while the infrastructure to transport oil is also advancing. Many analysts now see American oil companies as the best investment over the short term, but over the longer term Canadian companies will shine.

The sentiment continues to spread that the U.S. shale boom will play out sooner than previously expected. Now that oil production has been ongoing in the U.S. for a few years, it is clear that many U.S. oil wells only have a year of solid production before declines set in. These declines increase year after year. For this reason there are estimates that the shale boom could be a bust by the time we

move into the next decade. In Canada, in contrast, the oil reserves have a longer life and low decline risk.

### **What's Buffett's strategy?**

Many have tried, but none have been completely successful at mirroring Warren Buffett's strategies. Buffett is by no means secretive when it comes to his investing strategies; he looks for companies that are undervalued over the long term. This clearly makes sense when it comes to Suncor Energy.

At the time Buffett bought Suncor, it was underperforming its American counterparts. Suncor, however, is a great long-term play in the Canadian oil sands thanks to its ownership of a large amount of existing production and the fact that it produces and refines its own oil.

We can't be certain if Warren Buffett will hold his position in Suncor Energy, but the argument that Suncor energy is an undervalued longer-term play certainly is in line with the famed investor's money-making strategies.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. TSX:SU (Suncor Energy Inc.)

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Iklingel

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