



Should You Follow Warren Buffett and Buy Suncor Energy Inc.?

Description

Whether you're an investment novice or a seasoned professional, it never hurts to follow what the best investors are doing. And of course no one is more respected than Warren Buffett, Chairman and Chief Executive Officer of **Berkshire Hathaway Inc.** (NYSE: BRK.A)(NYSE: BRK.B).

Late last week, Mr. Buffett filed Berkshire's most recent 13F form, which details which stocks were bought and sold during the third quarter of this year. And one name should be of particular interest to Canadian investors: **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)).

During the third quarter, Berkshire bought just over 2 million shares of Suncor, and now holds nearly 18.5 million shares. At current market prices, that stake is worth just over \$700 million.

So Berkshire's stake in Suncor is still just a small fraction of its overall investment portfolio, which is worth over US\$100 million. But Mr. Buffett still firmly believes in Canada's largest energy company. Should you as well?

Not as bad for the oil sands as you would think

Ever since June, oil prices around the world have been sliding. Slowing economic growth in Europe and China has led to sluggish demand, and supply has been growing too. This of course has not been good for Canada's energy producers, nor their share prices.

But the news isn't as bad as it seems, for a number of reasons. For one, Canada's energy producers have benefited greatly from a lower Canadian dollar. To illustrate, back in 2011 the Canadian dollar traded for US\$1.01 on average. By the end of the third quarter of this year, that figure had sunk to US\$0.89. This helps companies like Suncor who sell in US dollars but incur most of their expenses in Canadian dollars.

Secondly, lower oil prices in the United States help reduce royalty rates here in Canada. And this alone added \$200 million to Suncor's operating earnings this past quarter (when compared to last year).

Finally, oil prices could easily reverse, for a number of reasons. Much of the increased oil production in

the United States has come on the heels of debt, and declining oil prices could spell deep trouble for these companies. And production outside of the United States still comes from countries with high amounts of geopolitical risk. Any disruption in supplies could easily reverse this trend.

Suncor: going against the mold

So is Suncor the right way to bet on a Canadian energy turnaround? Well, yes that appears to be the case.

Of particular note, Suncor is actually increasing its capital budget for next year, from \$6.8 billion this year to roughly \$7.5 billion next year. This is going against the grain; many other oil producers will likely be cutting their capital budgets.

If history repeats itself, this will be a very prudent move. After all, capital costs are usually highest when everyone is investing at the same time. The companies that have invested against the cycle have thus managed to save money, creating lasting shareholder value.

So if the energy market does turnaround, which it certainly can do, Suncor is very well-positioned. You would be wise to follow Mr. Buffett on this one.

CATEGORY

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