



Warren Buffett Lost \$150 Million on Suncor Energy Inc.; The Surprising Reason Why He Might Not Mind

Description

Warren Buffett made an unexpected move last year when he took a big position in Canadian oil giant **Suncor Energy Inc** ([TSX: SU](#))([NYSE: SU](#)). The transaction made headlines because it was the Oracle's first stock purchase north of the 49th parallel.

However, the past few weeks haven't been pretty. Since June, Suncor shares are off 25%. Based on recent SEC filings, Buffett has lost an estimated US\$150 million on his investment over that time.

But I doubt he has any regrets. On the contrary, Buffett might actually be celebrating. Here's why...

It's an important point about share buybacks: the cheaper the stock price, the more shares the company can repurchase with the same amount of money. The long-term investor benefits from lackluster stock returns in the short term. That's because the company gets to repurchase a bigger amount of stock at a convenient price.

In his 2011 letter to **Berkshire Hathaway Inc.** (NYSE: BRK.A)(NYSE: BRK.B) shareholders, Buffett explains this concept with **International Business Machines Corp.** as an example:

"Naturally, what happens to the company's earnings over the next five years is of enormous importance to us. Beyond that, the company will likely spend \$50 billion or so in those years to repurchase shares. Our quiz for the day: What should a long-term shareholder, such as Berkshire, cheer for during that period?

I won't keep you in suspense. We should wish for IBM's stock price to languish throughout the five years.

The logic is simple: If you are going to be a net buyer of stocks in the future, either directly with your own money or indirectly (through your ownership of a company that is repurchasing shares), you are hurt when stocks rise. You benefit when stocks swoon."

When a business like IBM has a big buyback program, a languishing stock price means shareholders are getting a bigger bang for their buck. The company gets to buy a bigger amount of stock for every dollar invested in the repurchase. Ultimately, investors will own a larger piece of the company (and have a bigger claim to IBM's profits).

The exact same idea is working at Suncor. Since 2011, the company has reduced its share count by more than 10%. The pie is now sliced in fewer pieces, so each piece is worth more.

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Source: Suncor Corporate Filings

And Suncor is just getting started. Management has already been authorized to buy back billions of dollars of stock. And CEO Steve Williams has hinted that he might boost that figure further.

Of course, what happens to the company's earnings over the next five years is important. Beyond that, management will likely spend \$5 billion or so in those years to repurchase shares. After last week's swoon, that money is going to work a lot harder for shareholders.

And that's why Warren Buffett may not be too unhappy about Suncor's falling stock price.

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