



What Should Warren Buffett Do With His Suncor Energy Inc. Shares?

Description

The past couple of years have generally been very fruitful for Warren Buffett and the company he runs, **Berkshire Hathaway Inc.** (NYSE: BRK.A)(NYSE: BRK.B). But he has made some small mistakes.

One stock that has cost him some money recently is **Suncor Energy Inc.** (TSX: SU)(NYSE: SU). Since June, the company's shares have retreated from \$47 per share in June to \$33, as of this writing.

Granted, Mr. Buffett bought the shares much earlier than June, so he has roughly broken even thus far. And in any case, Suncor remains a minor part of his portfolio.

Still, the question remains: what should he do with the shares?

A continued energy slide

Mr. Buffett's holdings in the energy sector are much more extensive than just a few Suncor shares. He also owns a much larger stake in **Exxon Mobil Corporation** (NYSE: XOM), another company grappling with lower oil prices.

There is a strong argument that he should reduce his stake. Saudi Arabia is clearly willing to fight a war of attrition, and American producers aren't holding back either. So we could easily see production continue to soar, resulting in even lower oil prices.

Making matters worse, it seems that oil companies are still digesting these prices. For example, Suncor's most recent guidance states that capital expenditures are due to grow roughly 10% next year. Much of this comes from Fort Hills, a project which probably is no longer economic.

Suncor has been a strong performer

That said, there are reasons why Mr. Buffett bought Suncor over other Canadian energy companies. The company has become much more disciplined than in years past. Capital budgets have been measured, costs have been kept under control, and the balance sheet is very strong.

To illustrate, Suncor has already cancelled expensive projects like the Voyageur upgrader. And its net debt totals only 0.7 times cash flow. This kind of discipline is what Mr. Buffett looks for when he buys stocks, and the rest of us would do well to follow his lead.

So when looking ahead, Suncor is not a bad holding in such an ominous price environment.

So what should he do?

First of all, Mr. Buffett generally does not sell stocks easily. Rather, he is known to be very patient, something that has served him very well throughout his career.

On the other hand, Mr. Buffett does not like to make bets on commodity prices. And for good reason – he has no natural advantage in making these kinds of predictions. He'd rather just buy great businesses he can count on.

And at this point, an investment in any energy (especially one in Canada's oil sands) is really a bet on oil prices. So he'd be unlikely to buy these stocks if he didn't already own them. Therefore his best bet is probably to sell the shares and put that money to better use.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:BRK.B (Berkshire Hathaway Inc.)
2. NYSE:BRKA (Berkshire Hathaway Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:XOM (Exxon Mobil Corporation)
5. TSX:SU (Suncor Energy Inc.)

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Date

2025/08/18

Date Created

2014/12/09

Author

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