



## Who Should Buy Suncor Energy Inc. for \$40 Per Share?

### Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is Canada's largest energy company and also one of the country's most admired firms. Suncor has weathered the downturn remarkably well. It has a strong balance sheet and diversified operations. And Warren Buffett is a shareholder.

So, does that mean you should be a shareholder? Well, that depends on who you are.

### Should energy investors own the shares?

At first glance, Suncor seems like a great way to bet on an energy rebound. But that's not really the case at all.

To illustrate, look at what has happened over the past 18 months. Even though oil prices have fallen by more than 40% and the **S&P/TSX Capped Energy Index** is down by 30%, Suncor's shares have been flat.

There are a few reasons for this, but the biggest one is the company's diversified operations. Another reason is the company's aforementioned strong balance sheet, which has allowed the company to prey on weaker competitors (such as **Canadian Oil Sands Ltd.**).

But because Suncor hasn't fallen far, there's limited upside if oil recovers. So, if you're looking to bet on the oil price, you should invest in a smaller producer. If that's too risky for your taste, then there's a very simple solution: invest *a smaller amount of money* in a smaller producer.

### Should dividend or value investors own the shares?

Value investors have a strategy that, on the surface, is very simple: they try to buy stocks that are on sale. That typically means looking for a big margin of safety and going against the crowd.

Unfortunately, it's hard to argue that Suncor shares are on sale. While appearing on *The Business News Network*, portfolio manager Eric Nuttall said that because of Suncor's popularity, the stock is already pricing in much higher oil prices.

As for the dividend, Suncor yields just 3%. This is lower than the yield from many ultra-safe payouts, such as those from utilities or the telcos. Income investors should certainly look elsewhere.

That leaves the million dollar question: Who should own Suncor shares?

### **Should professional money managers own the shares?**

Professional money managers tend to have a very familiar pitch to woo new clients. As the spiel goes, only strong companies make their way into the portfolio; anything with a weak balance sheet, poor management, or dubious business prospects gets passed up.

At the same time, money managers have an incentive to position their portfolios somewhat close to the index. After all, anyone who strays too far from the benchmark runs the risk of seriously underperforming, which is not good for one's career.

For those reasons, Suncor is a very popular pick among Canadian money managers. It allows them to hold a solid company, which is good for attracting new clients, all while gaining exposure to the energy sector.

Unfortunately, this trend has contributed to Suncor's high stock price. So, if you aren't facing those same constraints, you can certainly find more upside with other names.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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