



## Warren Buffett Just Bought \$240 Million of Suncor Energy Inc. Shares. Should You Buy, Too?

### Description

Billionaire Warren Buffett was busy during the third quarter.

The CEO of **Berkshire Hathaway** was busy selling off some of his larger holdings, raising cash to pay for the upcoming acquisition of **Precision Castparts**. Buffett sold nearly two million shares of **Wal-Mart**, one of his largest holdings. He also trimmed his position in **John Deere** and sold most of his company's position in **Chicago Bridge and Iron**. Buffett also lightened up on **Goldman Sachs**, selling 13% of Berkshire's stake in the Wall Street banker.

Still, Buffett did have some cash available to do some buying. He nearly doubled Berkshire's position in **Phillips 66** and added to one of his larger positions in **IBM**.

Perhaps most interesting to Canadian investors was Buffett's continual bullishness in **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). Before the third quarter, Berkshire owned 23.3 million shares of the energy giant, a stake worth about \$815 million. After the quarter was over, Buffett had boosted Berkshire's position by nearly seven million shares to 30 million shares, an investment now worth approximately \$1.1 billion.

It's obvious the Oracle of Omaha sees something in Suncor. Here are three reasons why you should at least consider joining him in Canada's largest energy company.

### A diverse business

Suncor is best known as an oil sands operator. But it's hardly a one-trick pony.

The company has increased its conventional oil production to the point where non-oil sands crude has grown to 20% of the company's average daily production of 576,000 barrels per day. Management plans to expand in areas like Europe and off the coast of Newfoundland as well.

But I suspect Buffett likes Suncor's exposure to the downstream part of the business even more. The company is one of North America's largest refiners, with capacity to process nearly 500,000 barrels of

crude per day. And thanks to the company's merger with Petro Canada, it has some 1,500 gas stations as customers for all that refined crude.

Even if the price of oil takes years to recover, at least Suncor can help make up for any production shortfalls with profits from the refining side of the company.

### **Taking advantage of the weakness**

While other oil companies are barely scraping by, Suncor is using its size and balance sheet strength to make acquisitions.

It started off by paying **Total** \$310 million for a 10% stake in the Fort Hills oil sands project, which is slated to begin production in 2017. That boosts Suncor's ownership of Fort Hills to more than 50%.

Suncor also made an all-stock offer to **Canadian Oil Sands Ltd.**, offering 0.25 Suncor shares for shares in Canadian Oil Sands, which is the largest partner of the Syncrude oil sands project.

This is a very smart move by Suncor's management. It won't cost the company a penny in cash off its balance sheet, and the price proposed is lower than the replacement cost of Syncrude's assets. If the deal is approved, Suncor will own nearly 49% of Syncrude, effectively making it the majority shareholder.

### **Giving back to shareholders**

Even though Berkshire Hathaway doesn't pay a dividend, Buffett has long been a fan of companies that pay a consistently rising dividend.

Suncor has raised its quarterly payout annually for the last 13 years. During that time, the dividend has increased from \$0.02 per share to \$0.29 per share. Management also plans to hike the dividend once again in 2016.

Suncor has also been buying back its own shares. From 2011 to 2014, it bought back some \$5.3 billion worth of its own stock, reducing the total number of shares outstanding by more than 110 million. And even though times are a little tight right now, Suncor is still planning to buy back \$250 million worth of shares between now and the end of the first quarter in 2016.

It's pretty obvious what Buffett sees in Suncor. It has great production, downstream assets that protect it from a prolonged weakness in crude, and a management team that gives back to shareholders. Buffett's interest in the company is just icing on the proverbial cake.

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1. Dividend Stocks
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