



Invest Like Warren Buffett With Suncor Energy Inc.

Description

Despite sharply weak oil prices and poor industry-wide fundamentals, Warren Buffett, the world's greatest investor, has increased his stake in **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). Through his company **Berkshire Hathaway Inc.**, Buffett increased his holding to now total 30 million shares worth in excess of \$1.1 billion. This amounts to about 2% of Suncor's shares and makes Buffett the company's ninth-largest shareholder.

It is easy to see why Buffett has boosted his stake in Suncor despite the headwinds that the energy patch is now facing.

Now what?

Suncor's breakeven costs of about US\$30 per barrel for its oil sands operations are some of the lowest in the energy patch. This means that even with West Texas Intermediate trading at about US\$41 per barrel, its oil sands operations will remain profitable. The oil sands operations account for 80% of Suncor's total oil production, so this bodes well for its overall profitability.

Another important aspect of Suncor's business is its downstream, or oil refining and marketing, operations. As oil prices fall this business becomes more profitable. Suncor has increased its refinery utilization rate and the volume of crude being processed in order to boost its profitability.

You can already see the positive impact this has had for Suncor. The third-quarter 2015 operating profit for its refining business spiked by an impressive 44% year over year.

However, Suncor's ability to remain profitable in the current harsh operating environment isn't the only attractive aspect of the company, nor is it the most important.

What makes Suncor such an attractive investment is its rock-solid balance sheet and the massive war chest that totals over \$5 billion, which it has amassed in order to make acquisitions.

You see, the sharp collapse in oil prices has created a once-in-a-lifetime opportunity to acquire quality oil assets at "fire sale" prices. As a result, Suncor has already acquired an additional 10% stake in its

Fort Hills' oil sands project at a price well below what it was valued at prior to the oil crunch.

It has also launched a timely hostile takeover bid for **Canadian Oil Sands Ltd.** (TSX:COS), which could get over the line despite Canadian Oil Sands's management team rejecting the bid out of hand. Despite claims that the bid significantly undervalues the company, Canadian Oil Sands remains under extreme pressure in an operating environment where sub-US\$50 crude is fast looking to be the new normal.

Canadian Oil Sands is cash flow negative, and it has to service its massive debt pile totaling \$2.3 billion, which is rated at just one notch above junk status.

Even if Suncor is unsuccessful, there is still large number of quality oil and gas assets up for grabs at distressed prices.

Suncor will emerge from the oil rout as the undisputed king of the oil sands and will be able to rapidly boost production in order to take full advantage of higher oil prices.

So what?

It is not hard to see why Buffett is attracted to Suncor. Not only does it have the ability to remain profitable in the harsh operating environment now being witnessed, but it is capable of taking advantage of that environment to acquire quality oil assets at distressed prices. Suncor will emerge from the oil crunch as Canada's dominant energy company and will be fully able to unlock considerable value for shareholders when oil rallies.

CATEGORY

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2. Investing

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Date

2025/09/18

Date Created

2015/11/18

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