



## Contrarian Investors: Suncor Energy Inc. and the Value of Patience

### Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) enjoyed a long-overdue rally yesterday as the stock soared up to 6% in a single trading session. The stock has been fairly flat for over 16 months, and impatient investors may have cut their stakes, which would have been a mistake considering that oil prices have steadily improved during this time frame.

### Lesson: Don't follow gurus in and out of stocks

Even famous investor Warren Buffett is guilty of this mistake. Buffett emphasizes how patience is key when you're investing for the long term in a company that you believe has a durable competitive advantage and terrific management.

Suncor meets these requirements, but the stock has not seen any upside in quite a while, although the fat yield of about 3% satisfied some dividend investors. Buffett actually reduced his stake in Suncor by a significant amount this summer, and if you followed in his footsteps, then you would have missed out on a very nice rally of about 22%.

### Why Suncor rallied

Suncor reported much better than expected Q3 2016 earnings, in which the company had very strong upstream production with decreased operating costs. The refineries actually saw record crude oil throughput, as production rates were back to normal following the Q2 forest fire incident in Fort McMurray, which reduced production temporarily. The throughput increase will amplify the upside as oil prices continue to climb back to their historical highs.

Suncor raised its full-year production guidance to 610-625 thousand barrels per day, which is approximately 25 thousand more than originally anticipated. The spending budget was also slashed to \$5.8-6 billion from \$6-6.5 billion, which is a good sign that management is maximizing operational efficiency while still being able to produce record amounts of throughput.

### Where will the stock go from here?

It's no mystery that Suncor has excellent managers and they're focused on the long-term fundamentals of the business. This is why Buffett loved them so much, but he made a mistake by reducing his stake in Suncor, when he actually should have added more to his position this summer. So what will happen after this impressive rally?

I believe the impressive quarter and Suncor's ability to rebound from a disaster could be the start of a sustained rally back to high levels. I believe that oil prices will continue to improve as we head into 2017 and we could realistically see oil in the \$60-70 range by next summer.

If oil does rally back to these levels, then Suncor will experience huge growth in its earnings, and we may see the business jump back to its historical highs thanks to management's acquisitions of smaller, financially strapped oil producers during the oil crisis when oil was about \$20 per barrel. With higher oil prices comes fewer acquisitions by Suncor, but it may finally be time to reap the rewards of the great efforts put in by management.

If you're an investor in a stock like this, buy it, collect the dividend, and simply forget about it, because oil will inevitably rebound, as we've seen over the past few months. If you're playing a rebound in something, you must think long term and have patience, which I believe is the most important part of being a contrarian investor looking for huge returns.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

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

## Category

1. Energy Stocks
2. Investing

## Date

2025/09/17

## Date Created

2016/10/29

## Author

joefrenette

default watermark