



## Buffett's Suncor Energy Inc. Purchase May Pay Off Big in 2017, 2018

### Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is one of the largest oil sands producers in Canada, and while the company is vertically integrated with an exploration and development division as well as refining and marketing operations, this is one company I look to as a “canary” of sorts when looking for a stock with long-term exposure to the potential oil-price rebound because of its heavy exposure to oil sands production.

Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) has been one high-profile supporter of the long-term prospects of Suncor; it bought a large stake in the oil sands producer last year. Berkshire recently liquidated a portion of its holdings in Suncor this year, but it still holds approximately 22 million shares in this company.

I'll be looking at the fundamentals of the crude oil industry and where analysts think commodity prices will be headed in the coming year. I'll be specifically looking at the report released at the beginning of this month from ATB Financial, which highlights renewed strength of the oil sands industry in Alberta, noting a high probability of long-term strength and earnings stability moving forward.

### What do the experts think?

The recent report from ATB Financial (one of Alberta's provincially owned banks) forecasts growth in Alberta's economy next year of 2.1-2.6%, led by an oil sands resurgence due to upward pressure in oil prices and leading to stronger corporate earnings in 2017. This would be a welcome boost to Alberta, considering the past two years of negative growth (4% decline in 2015 and a projected 2.6% decline this year) have led to a sharp rise in unemployment and consumer proposals, which hurt the bottom line of the bank.

The report focuses on an oil sands recovery as the primary driver of economic growth, noting that the sharp decline in the price of West Texas Intermediate to \$27 was likely a one-off situation that's unlikely to happen again. ATB chief economist Todd Hirsch pointed out that a stabilizing of the oil price around the \$50-55 level would result in stability in the oil sands sector, but it would not necessarily result in growth.

The longer-term recovery, in which oil sands companies see profitable growth and begin rehiring, may not happen for a couple more years with "gains in the job market ... likely to be very slow in coming," said Mr. Hirsch. Depending on how confident investors are about an industry recovery, it appears now may be a fantastic time to gain exposure to Suncor and, indirectly, the oil sands industry.

### **What about Suncor's fundamentals?**

Suncor has had some of the best fundamentals compared with peers in the oil sands industry; it gained a significant boost from news last year of Warren Buffett's vote of confidence in the company. Suncor currently carries a dividend yield of 2.8% and has had stable and growing dividends for more than 10 years—one of the metrics Warren Buffett uses to assess stocks he may want to hold in his portfolio.

Suncor is a stock that has long-term upside potential as well as a short-term return via dividends.

### **CATEGORY**

1. Energy Stocks
2. Investing

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