

# Suncor Energy Inc.: Why Warren Buffett Was Wrong to Dump His Stake

## Description

**Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is Canada's best-run oil company, and it's got many tailwinds that will drive the stock higher next year. Such tailwinds include decreased operational costs, increased production, and increasing oil prices.

There's no question that 2016 was a rough year for companies in the oil patch; many of the financially stressed ones were on their knees when oil was at its bottom earlier this year. Suncor was doing just fine with depressed oil prices; its balance sheet was strong, and it took advantage of the environment by acquiring smaller producers like Canadian Oil Sands at a huge discount.

Production is expected to rise 13% next year, and spending is expected to fall by over \$1 billion. Thanks to investments to improve operational efficiency, the company is now ready to reap the rewards as we head into 2017.

Suncor is expecting to spend between \$4.8 and \$5.2 billion next year and is expecting to produce between 680,000 and 720,000 barrels of oil per day.

Many pundits believe that oil prices will continue to climb higher in 2017 with an average target price of about \$60. When combined with the fact that Suncor is increasing production while decreasing costs, this means there will be a huge increase in free cash flow next year. You can bet that the company will return this cash to shareholders in the form of an upped dividend.

## Why did Warren Buffett sell his stake?

Warren Buffett recently dumped his entire stake in Suncor this year, and I believe he sold at the worst possible time. There's no doubt that Suncor is a fantastic business, and Buffett knew this. The management team was making opportunistic acquisitions that will unlock huge synergies over the long term and investing heavily in improving every aspect of production.

The management team has a long-term focus, and this is why the company is one of the best bets you can make on a rebound in oil prices. Why did Warren Buffett sell? He already had a large stake in another oil giant in **Phillips 66**, so it's likely that he wanted to decrease his exposure, but he hasn't given up on oil just yet.

## Does that mean you should dump Suncor and follow Buffett into Phillips 66?

Definitely not.

I believe Suncor is about to soar, as its long-term investments finally start to show on the earnings reports. There's only one reason why a guru buys a stock: it's because he believes the company is trading at a discount to intrinsic value and has tremendous upside. But there are many reasons as to why a guru would sell a stock. Maybe he already had enough oil exposure, or maybe he needed the money to finance another deal. Just because Buffett sold the stock doesn't mean that the company is

no longer great.

Even if you're not bullish on the price of oil, Suncor is still a top pick given its ability to survive even the worst of oil-price crashes. In the company forecast, operating costs on all of its oil sand projects are expected to be between \$24 and \$27 per barrel, which is about 50¢ lower than the cost in 2016.

Even if oil crashes to the \$30 level, a lot of its peers will be bleeding cash, while Suncor continues to be profitable. The company has a fantastic balance sheet, and cash flow is going to explode next year. If you need oil exposure and safety in case oil prices collapse again, then Suncor is the stock you're looking for.

## CATEGORY

1. Energy Stocks
2. Investing

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## Author

joefrenette

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