



Should Fools Follow Warren Buffett Into Suncor Energy Inc. (TSX:SU) Stock?

Description

One of the most remarkable takeaways from Warren Buffett's recent filing was that he'd re-initiated a stake in the Canadian oil sands darling, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), a business that some analysts thought was merely a mirage.

While there are indeed plenty of land-locked assets under Suncor's name that won't be useful unless the Canadian energy environment improves, there's still the light at the end of the tunnel should Alberta's heavy oil glut find a way of resolving itself.

As you're probably aware, there's been a nasty bottleneck up north, with overloaded pipelines and resistance on new projects that aim to provide Alberta's oil patch with relief. And although there are no near-term catalysts that could meaningfully narrow the WCS-to-WTI discount, contrarian investors, like Buffett, need to go against the grain if they're to achieve superior risk-adjusted returns over the long term.

Yes, the state of Canada's energy sector looks dire, and it could get even worse in the coming months. When you consider the premium players in the space like Suncor, however, the long-term contrarian investment thesis makes a lot more sense, even at today's highly uncertain levels.

You're getting a low price of admission, a low bar set for the company, but, more importantly, you're getting a pristine balance sheet and cash flow-generative businesses that'll allow the company to protect its shareholders from the choppy moves made in Canada's energy sector. As one of the best oil sands players out there, Suncor is not only able to offer its patient investors a sustainable (and generous) dividend, but through its integrated operations, the company is able to consistently reward investors with consistent raises — something that many of Suncor's financially stressed counterparts are unable to do.

Back on January 30, I'd [called Suncor stock an absolute steal](#) while shares hovered in the low \$40 levels. I'd touted Suncor's "treasure trove" of land-locked oil assets, the [reliable dividend](#), and the ridiculously low valuation as primary reasons for investors to back up the truck on shares.

Indeed, Buffett nabbed the steal, and with shares currently shy of the \$45 mark, I still think it'd be a wise move for patient, income-oriented investors to initiate a position in Suncor today. The stock is hated, the sector is despised, and nobody wants to touch anything oil related with a barge pole. And that's exactly what makes Suncor stock attractive to contrarians like Buffett.

The Foolish takeaway

Suncor shares remain cheap, even after Buffett's big investment. While the near- to medium-term outlook for Suncor and the sector remains unimpressive, you've got that juicy dividend (currently yielding 3.8%) to look forward to in the meantime, as Canada's regulators take action to fix the heavy crude transportation mess.

Suncor's business is no mirage. It's a steal. So, don't be afraid to follow in Uncle Warren's footsteps in the low \$40 levels. While you're getting a higher cost basis than the Oracle of Omaha, you're still locking in a chunky yield, and significant potential upside should Canada's oil patch find relief in some way over the next three years.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

default watermark

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/16

Date Created

2019/02/18

Author

joefrenette

default watermark