



A Top Canadian Oil Stock That Warren Buffett Likes

Description

Berkshire Hathaway Inc.'s (NYSE:BRK-A)(NYSE:BRK-B) recently-disclosed stake in **Suncor Energy Inc** ([TSX:SU](#))([NYSE:SU](#)) has surprised many analysts. But it's a good case to understand the stock-picking strategy of the world's most successful value investor, Warren Buffett.

Berkshire, an investment firm owned by Buffett, has made public its Suncor stake when the Canada's energy producers are passing through one of the most challenging times. Their growth has been stifled due to the acute shortage of pipeline capacity.

The pipeline shortage is so bad that it forced the nation's largest oil-producing province — Alberta — to impose restrictions on oil output as it struggles to manage the glut that last year pushed the value of Canadian oil to a record low versus the U.S. benchmark.

There is no quick and short-term solution to this problem, especially when the construction of new pipelines is being blocked by court decisions and environmentalists. [So what makes Suncor](#), one of Canada's largest oil-sand producer, attractive to Warren Buffett in this dismal situation?

By researching Warren Buffett's investing style, I find two factors that could attract a value investor to buy Suncor shares:

First, Suncor is a well-run integrated oil and gas producer that's consistently shown to investors that it can survive in one of the worst oil downturns. After 2014 oil plunge, the company cut its costs, re-organized its operations and pursued an impressive growth strategy.

Its vertical integration in Canada's oil sands make it a stronger player than pure upstream players. Suncor runs refineries and petrol stations that continue to produce cash even when oil prices take a plunge.

[Suncor's strong cash generation](#) is probably the other main attraction that might have caught Warren Buffett's attention. The company generated \$5.2 billion in free cash flows after the capital spending and \$2.8 billion if we subtract dividend payments.

That's massive cash in an industry that experienced great pain and is still in the middle of a crisis created by pipeline shortages.

With these strengths and Suncor's great track record of rewarding investors by returning cash through dividends, its shares were a steal in the fourth-quarter of the last year. Suncor forward multiples were traded as low as 11 times of their earnings in the fourth quarter as its share price dipped to \$35.52 during the December correction after hitting \$55.47 earlier in the year.

Bottom line

Buying shares after Warren Buffett has taken a position isn't a sure bet, but Suncor is one stock that might just be right to follow his path even after the stock's strong recovery this year. By buying Suncor, you're making a long-term bet on Canada's energy sector that in my view, will rebound after a few bad years. You will also earn regular dividends that the company has been growing consistently.

CATEGORY

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