



Why Is Suncor Energy Inc. (TSX:SU) Stock up 28%?

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) has experienced a slew of good news over recent months, pushing shares up by 28% since the year began. From changes in regulation to growing interest by a famous investor, many investors are piling into Suncor stock.

Here's what you need to know about Suncor's recent rally.

All aboard the Buffett train

The biggest news this year stemmed from actions by perhaps the world's most reputable investor: Warren Buffett.

In February, Warren Buffett's holding company **Berkshire Hathaway** reported a 10.8 million stake in Suncor. After the purchase, Berkshire now owns 0.7% of all shares.

After months of selling across the entire Canadian energy sector, investors welcomed this news with open arms. *Reuters* summed up the enthusiasm behind Buffett's purchases, noting that it "could revive investor interest in the languishing Canadian energy sector."

As I [wrote](#) in February, it seems that Buffett's purchase also rallied other investors to shift their sentiment on beaten-down Canadian energy stocks. An investor at Acumen Capital Finance believes that Buffett's stake has created an "attractive entry point for an out-of-favour sector."

Many investors are now expecting a renaissance for cash-starved oil and gas companies in Canada.

Big regulatory changes are here

Many other Canadian energy companies have seen shares pop in recent weeks. **Crescent Point**, for example, is up nearly 20%.

The industry-wide rally stems from changes in regulatory policy. On March 19, Alberta's production

restrictions were [reduced](#), allowing local operators to pump and sell more oil per day. Previously, the region was producing at least 10% more oil than it could process and transport, leading to a massive supply glut that caused selling prices to plummet.

The updated rules now allow local production to be boosted by 25,000 barrels per day starting in May. June will see another 25,000 barrels per day come online. If you pump oil in Alberta (like Suncor), this is a great news.

Should you follow Buffett?

Importantly, Buffett knows Suncor well. Berkshire Hathaway owned shares in 2013 but ended up selling the entire stake in 2016.

Investors looking to follow Buffett should take caution, though.

First, the supply increase in Alberta may prove to be temporary. Regulators noted that the increase didn't stem from new transportation infrastructure but rather warmer weather. In the spring and summer, oil flows more easily through pipelines, allowing operators to ship the same amount of output through existing assets.

Long term, however, new pipelines will need to be built to allow the region to produce at full capacity. At best, that future is still years away.

Second, Suncor is a highly levered bet on oil sands, one of the riskiest forms of oil production due to its high cost of extraction and processing. Today, most of the company's output requires US\$50 per barrel selling prices to break even. **Exxon Mobil**, for comparison, is targeting US\$15 per barrel breakeven prices at its new projects.

There's a good chance that oil sands projects simply won't survive the next decade. Even if they do, they could struggle immensely unless oil prices improve. With all due respect to the Oracle of Omaha, I'm sticking to the sidelines on this one.

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