



Time to Buy Warren Buffett's Favourite Canadian Stock?

Description

In the latest 13F filing, it was revealed that Warren Buffett had loaded up on **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock, just a few years after he'd made a similar bet only to throw in the towel on the name, sparking fears that the value proposition had dried up in Alberta's ailing oil patch.

Now that Buffett has returned with another huge stake, many Canadian energy pessimists are now scratching their heads as to why the Oracle of Omaha is returning to an industry with no real catalysts on the horizon.

As you may know, Buffett is an incredibly patient investor. Even at the ripe old age of 88, Buffett appears more than willing to sit on his Suncor investment for years at a time with few bulls that see any sort of relief for Canada's heavy oil mess.

Buffett got in at a great price, and if you acted on my prior piece when I called Suncor an "[absolute steal](#)," you would have gotten a cost basis similar to that of Buffett's. The stock has since taken off on renewed optimism on his bold bet, but even if the rally runs out of steam, Buffett is probably not in a rush to get out as he was last time. In the meantime, Buffett will collect a chunky, growing dividend yield of around 4%, (it's now 3.3% at the time of writing) while he waits for the Canadian heavy oil glut to sort itself out in time.

Suncor's management team will do everything in their power to dampen the volatility faced in the ugly Canadian energy sector — whether it be through generous dividend increases made possible by the company's pristine balance sheet and stable, cash-flow-generative integrated businesses or by increasing long-term value by scooping up ailing competitors at a massive discount to their intrinsic value.

I believe Buffett thinks Suncor is a win-win proposition, regardless of which direction oil prices go. While Suncor would undoubtedly benefit profoundly from higher oil prices, as the company could turn on the taps to various "waiting" projects, an environment in which WCS prices remain depressed won't be to the detriment of the investment thesis assuming you get Suncor at around \$40.

There's the fat dividend with room to grow, but most important, the strong balance sheet allows Suncor to catch other junior producers as they fall gradually into insolvency. Think about the deal that Suncor got when it scooped up Canadian Oil Sands on the oil crash a few years ago. It was a bargain that drove tremendous value for shareholders, and although most of the assets will be landlocked for an unknown period of time, it is apparent that the company's sound financial footing allowed it to pay a dime to get a dollar.

Foolish takeaway

Suncor is more than able to support and grow its dividend thanks to its integrated operations and strong balance sheet. Buffett doesn't know which direction WCS prices are headed next, but he clearly likes the long-term risk/reward trade-off there is to be had.

Sure, there may be no catalysts to send the stock pole-vaulting over the near-term, but if you're like Buffett and could care less about short-term moves, Suncor looks like a brilliant bet here and now. You're getting a bountiful dividend and massive potential upside if ever the gap between WCS and WTI prices narrows. That seems like a [great deal](#) to me.

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