



Buy This Dividend Heavyweight Before Warren Buffett Has a Chance to Add to His Stake

Description

Many investors are perplexed as to why Warren Buffett decided to take a fresh stake in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) several months ago after a barrage of selling activity by many foreign institutional investors. With the investment, Buffett proves once again that he's [a true contrarian](#) and has no problem betting on a name that many others have thrown in the towel on.

Suncor ought to command respect from investors. The stock has a bountiful 4.1% dividend yield and is one of the strongest players in the oil sands with its strong balance sheet, a wealth of untapped assets, and its robust free cash flow-generative integrated operations.

While the lack of long-term momentum is discouraging for longer-term thinkers, you have to commend Suncor's management team for keeping its ship relatively stable amid highly unfavourable industry headwinds. What's even more promising about the magnitude of Suncor's dividend is its safety and ability to grow further, even if oil prices remain as depressed as they are currently.

You see, unlike other less-capitalized peers in the space, Suncor doesn't *need* higher oil prices to produce satisfactory returns over time. Of course, higher oil will produce outsized capital gains, but as you wait for industry conditions to improve (or not), you'll continue to rake in a [growing dividend](#) that'll likely be well supported.

Nobody knows when WTI will move above US\$70, nor does anyone know when the WCS-to-WTI discount will narrow. If neither happens anytime soon, you'll have the strong dividend to fall back on, and at today's valuations, I'm liking the risk/reward trade-off very much.

To me, it's not a mystery as to why Buffett likes Suncor.

The Oracle of Omaha may not know where oil's headed next, but he does know that he wants to be paid a strong, growing dividend that's supported by strong cash flow-generating operations while he holds his investment.

Moreover, Alberta's newly elected pro-business UCP government has the potential to be a boon on

foreign investment in Canada's energy sector. The "additional layer of uncertainty" with regards to the NDP Party's Carbon taxes and the like made an investment in Canadian energy that much more unattractive through the eyes of foreign investors.

In a way, the additional layer of uncertainty now looks to have been lifted. While the outlook for energy stocks is still very hazy, a more accommodative government ought to have institutional investors second-guessing their previous decision to exit Alberta's oil patch.

In any case, Buffett appears content with Suncor's dividend, and as shares continue pulling back, one has to think that he may be hungry for a second helping to Suncor stock.

Stay hungry. Stay Foolish.

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