



## Oil Crash: Was Warren Buffett Wrong About Suncor Energy (TSX:SU)?

### Description

If you followed Warren Buffett into **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), you're probably [licking your wounds](#) right about now. You're probably wondering one of two things. Whether you should ditch the stock now, or wait to hear what he is doing with [his now-soured position](#).

Suncor stock plunged 18% on Monday and is now down over 50% from its July 2018 high. Buffett likely lost big money as he's been loading up on shares of the Canadian integrated company of late. You may think he looks like a fool for betting on the Canadian oil kingpin before the stock collapsed. But it may surprise you to discover that Buffett may actually be happy about the recent drop!

Buffett's known to take starter positions in companies with the intention of adding to his position should shares become cheaper down the road. If he's spotted a wonderful business at a wonderful valuation and the stock gets even cheaper, he gets more enticed to buy even more!

With the recent collapse in oil prices as a result of a failed OPEC+ deal, though, does the Suncor thesis change for the worse? Or has Mr. Market served up an opportunity of a lifetime to load up on shares of a Buffett company at a better cost basis than the Oracle of Omaha?

### What would Uncle Warren do?

Arguably, Warren Buffett is pretty lousy at timing the market. He purchased shares of Canadian oil sands company prior to two of the most violent oil price plunges in recent history. Buffett admits that he doesn't know how to time the market — and knows nobody who does. He's also not one to “play” the price of a commodity, given it's almost impossible to predict where its price will head next.

What Buffett is known for is buying businesses that have durable competitive advantages and holding them for the long term. Suncor does have a massive advantage over its peers in the ailing oil sands with its stellar balance sheet. Not to mention the company's robust integrated operations that can fair well in a “lower oil for longer” type of environment.

## What now for Suncor?

Suncor is still a cash cow after the latest slump in oil prices. Regardless, the looming price war is a serious concern that could weigh on even the best-in-breed integrated plays in the oil patch. **Goldman Sachs** recently warned investors to prepare for US\$20 oil. And if US\$20 WTI becomes the new norm, even an oil king like Suncor is considerably less attractive than it was when Buffett first set his sights on it.

Regardless, Suncor now sports a colossal 6.8% dividend yield, which is sustainable and subject to further growth. The dividend is still as healthy as ever. Given Suncor's pristine balance sheet, the company could be in a position to take advantage of the turmoil by scooping up assets from its smaller peers in the space at a fraction of their worth.

Indeed, the tides have gone out on the oil sands. With insolvencies a growing possibility for many poorly capitalized players, Suncor may be in a spot to rise out of this downturn better than it entered.

## Foolish takeaway

Suncor looks like just another dud after oil's latest collapse. But if you've got a long-term horizon, Suncor stock has never looked better with its massive dividend yield. It has a competitive edge and will be able to ride out this downturn. So, count me as unsurprised if Buffett's continuing to add to his Suncor stake as we speak...

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