



Profit From the Market Crash: Invest Like Warren Buffett and Buy Suncor Today

Description

Warren Buffett's portfolio has been hammered by the 2020 market crash. It is estimated that his airline investments alone have cost Buffett's **Berkshire Hathaway** US\$5 billion. There could be further losses ahead for the man regarded by many to be the world's greatest investor.

The outlook for stocks is poor. The growing volume of U.S. coronavirus cases and fears that companies will take massive earnings hits is weighing on stocks.

Among the worst affected are oil stocks because oil prices collapsed sharply in early March, which saw the North American West Texas Intermediate (WTI) benchmark fall below US\$20 per barrel for the first time since 2002. While oil has rallied to see WTI trading at almost US\$27 per barrel, it is still down by 57% since the start of 2020.

Among Buffett's largest investment are a range of [oil companies](#), including Canadian integrated energy major **Suncor** ([TSX:SU](#))([NYSE:SU](#)). His investment in Suncor at the end of 2019 was worth US\$255 million, representing approximately 1% stake in the oil sands giant.

Since that time, Suncor's price has plunged 43%, wiping around US\$109 million off the value of that investment. Despite the crisis facing Canada's oil patch caused by sharply weak oil, Suncor appears attractively valued.

Solid fundamentals

The integrated energy major, unlike many smaller solely upstream oil producers, possesses solid fundamentals. These include a solid balance sheet, low cost oil production and significant refining capacity.

Suncor finished 2019 with almost \$2 billion in cash, giving it considerable financial flexibility in what is shaping up to be a very difficult operating environment.

The energy major also had \$15.5 billion in long-term debt and lease liabilities which is a very

manageable 1.4 times annual funds from operations.

As a result, Suncor can weather the current crisis and emerge in a solid position when oil rebounds.

Suncor has also instituted measures to mitigate the risks associated with the latest [oil prices collapse](#) and coronavirus pandemic. This includes reducing 2020 capital expenditures by around 26% to somewhere between \$3.9 billion and \$4.5 billion.

Suncor has also focused that spending on activities aimed at maintaining production as well as related assets and for high return projects.

The integrated energy major has also trimmed its planned crude by rail deliveries because with the Canadian heavy oil Western Canadian Select (WCS) benchmark trading at around US\$11 per barrel it is uneconomic.

As a result of these cuts, Suncor expects average annual production of 740,000 to 780,000 barrels of oil daily. At the upper end, this represents a moderate 8% drop from its original 2020 production guidance boding well for continued cash flows from operations.

Those upstream assets also have some low operating costs. For 2019, Suncor's oil sands assets reported cash operating costs of \$28.20 per barrel of crude produced, while for Fort Hills they were \$26.15 a barrel, indicating that even with WTI trading at around US\$26, Suncor's core oil sands assets are cash-flow positive.

Downstream operations

Suncor anticipates that refinery of up to 460,000 barrels daily and 95% to 99% utilization rate will remain unchanged. That is crucial to the company weathering the current crisis, as the oil price collapse has significantly reduced the cost of feedstock for Suncor's refineries. This will significantly boost their profitability and the energy major's earnings.

Suncor's integrated energy operations are essential to its ability to survive the latest oil price collapse. When oil prices are weak, Suncor's refining operations become more profitable, thereby mitigating the impact of sharply lower crude on its bottom line.

Foolish takeaway

Suncor's appeal for Warren Buffett is easy to discern. The combination of low-cost assets, profitable refining operations and solid balance sheet means it can weather the current harsh environment in good shape.

When oil eventually rebounds, Suncor's earnings will expand and its stock soar higher. Until that occurs, patient investors will be rewarded by its dividend yielding a juicy 7.8%.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/07

Date Created

2020/04/07

Author

mattdsmith

default watermark

default watermark