



## Should You Invest Like Warren Buffett and Buy Suncor (TSX:SU)?

### Description

Toward the end of 2019, Warren Buffett bought an additional 4.3 million shares of Canadian integrated energy major **Suncor** ([TSX:SU](#))([NYSE:SU](#)). The company, Canada's largest energy stock, has lost a whopping 46% since the start of 2020 because of the oil price collapse. There are signs of worse ahead for oil prices, leading many pundits to speculate whether Buffett will incur a significant loss.

At the end of 2019, Buffett's 15 million share stake in the senior oil producer was valued at US\$439 million compared to US\$245 million today. That indicates Buffett's investment in Suncor has declined by a whopping 44%.

The key reason for that savage decline is the oil price collapse that occurred because of the coronavirus pandemic and the collapse of the OPEC deal on production cuts.

Since that collapse, OPEC and Russia have announced a [new deal](#) to shave almost 10 million barrels of crude daily off their collective production.

Riyadh and Moscow also appear to have called off their [oil price war](#), which was weighing heavily on energy prices. While Suncor has endured a big slide, it appears attractively valued and is one of the best plays on higher oil in Canada's energy patch.

### Quality assets

Suncor stands out for a variety of reasons, the key being its low cost, long-life oil sands assets. For 2019, Suncor reported cash operating costs of \$28.20 per barrel produced for its oil sands operations.

Those cash costs were even lower for the Fort Hills oil sands project, at \$26.15 per barrel produced. Suncor's in situ operations have remarkably low cash costs of \$9.25 per barrel extracted.

The energy major expects those costs to fall during 2020, making it economic to continue operating most of its assets despite sharply weaker oil prices.

Nevertheless, in response to the current crisis engulfing the oil industry Suncor has moved to reduce spending and shutter non-economic production. The company has cut 2020 capital expenditures by 26% compared to its original budget.

Suncor has identified that crude by rail is uneconomic with Western Canadian Select (WCS) selling for US\$7 per barrel. As a result, the senior oil producer will cut production until oil prices recover. Suncor has forecast that 2020 oil output will be around 8% lower than previously projected.

Notably, Suncor's 2020 refinery utilization and throughput will remain unchanged. It expects an annual utilization rate of 95% to 99% and output of 440,000 to 460,000 barrels of refined products.

That is particularly important because sharply weaker oil prices make feed stock for Suncor's refining operations cheaper, boosting margins and profitability. This will help to make up for the shortfall in earnings from Suncor's upstream business.

## Foolish takeaway

Suncor's solid balance sheet and net debt is a very manageable 1.5 times funds from operations (FFO). When combined with its attractive valuation, it underscores why now is the time to buy.

The only risk is that Suncor may cut its dividend, which is yielding 8% in the current harsh operating environment. It has a payout ratio of 90% and Suncor's WTI breakeven price when including sustaining capital; the dividend is around US\$45 per barrel, or double the current price.

That shouldn't concern investors however, as even a 50% cut, which would free up around \$1.3 billion in capital, would still leave a juicy 4% yield.

By cutting the dividend, Suncor will protect its cash flow and balance sheet, allowing it to emerge from the current oil price collapse in solid shape.

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**Date**

2025/08/24

**Date Created**

2020/04/14

**Author**

mattdsmith

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