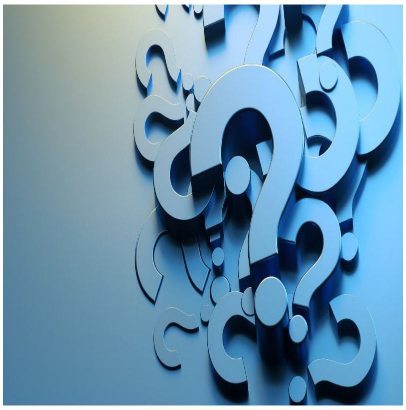

Warren Buffett Has Exposure to Oil Stocks: Should You Follow Suit?

Description

We have seen that global economies are in turmoil due to the COVID-19 pandemic. This has made equity markets significantly volatile over the last two months. Plunging oil prices have further hurt investors and dragged oil stocks lower, further exacerbating the current decline. Earlier this week, the price for Western Canada Select briefly entered negative territory.

This means that oil producers were paying customers to take oil off their hands and store the commodity. As several countries have announced lockdowns, the demand for oil has reduced drastically, resulting in a supply glut.

Further, the oil price war between Russia and Saudi Arabia contributed to the volatility. All of these factors have sent oil stocks to multi-year lows. Is it now time to take a contrarian view and buy these beaten-down stocks?

Noted investor Warren Buffett has exposure to a couple of oil companies. Buffett's **Berkshire Hathaway** owns 36.3 million shares in **Occidental Petroleum** and 15 million shares of **Suncor Energy** (TSX:SU)(NYSE:SU). This indicates Berkshire has a 4% stake in Occidental Petroleum and 1% stake in Suncor as of December 2019.

Will Warren Buffett increase stake in Suncor Energy?

The current oil prices have made production of the commodity unprofitable. However, Suncor is better poised than most peers to ride this downturn. Suncor Energy is one of the largest energy companies in Canada. It has a market cap of $33.6 billion and an enterprise value of $48.6 billion. Suncor ended 2019 with $2 billion in cash and $4.7 billion in available credit and infused another $3.75 billion in April to improve short-term liquidity.

Suncor should stand to benefit from downstream operations that take place once the commodity is already produced. Downstream operations are basically the process of converting oil into a finished product.

Suncor owns oil refineries across North America and several Petro-Canada gas stations. It's an integrated oil company and can depend on its petrochemical operations and downstream refining to offset the decline from falling commodity prices. Its oil refinery assets will benefit from lower input costs and gas stations should see a spike in demand when lockdown rules are over.

Suncor stock is trading at $22, which is over 50% below its 52-week high. This decline in stock price has driven dividend yields to a tasty 8.4%. It spends close to $3 billion in annual dividend payouts. Suncor has strong fundamentals and enough reserves making a dividend cut unlikely.

Will Warren Buffett increase stake in this oil giant given that a massive recovery is on the cards once global economies function at normal levels?

Why Warren Buffett might reduce stake in Occidental Petroleum

Shares of Occidental Petroleum are down 78% at US$13.87, at the time of writing. This US$12.5 billion giant has reduced capital expenditure forecasts twice this year and cut dividends by 86%.

Occidental Petroleum has massive debt of US$41 billion. While it was planning to sell non-core assets to reduce debt load, these moves might have to be delayed looking at the current market volatility.

The Foolish takeaway

The recent demand-supply imbalance in the oil industry has been unprecedented. Oil demand might fall by 30% in April and May, making energy stocks extremely risky picks. On the flip side, the COVID-19 pandemic is likely to be a near-term headwind and oil prices should move higher in the second half of 2020.

The upcoming filings of Warren Buffett's Berkshire Hathaway will throw more light on his investments in the energy sector. Will the Oracle of Omaha increase stake in a fundamentally strong Suncor and exit the highly risky oil company south of the border?

CATEGORY

1. Coronavirus
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:OXY (Occidental Petroleum Corporation)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Energy Stocks
3. Investing

Date
2025/07/19
Date Created
2020/04/25
Author
araghunath