



Should You Follow Warren Buffett and Invest in Suncor Energy (TSX:SU)?

Description

Investment stalwart Warren Buffett has successfully managed to beat broader equity markets in the past. The Oracle of Omaha identifies undervalued companies with the potential for a strong uptick. The current market decline has decimated several stocks across sectors, giving investors an opportunity to buy quality stocks at cheap valuations.

One industry that has been severely impacted is the energy sector. Low oil prices due to a massive fall in demand have driven energy stocks to multi-year lows. Warren Buffett's **Berkshire Hathaway** [has exposure](#) to a few oil stocks.

Warren Buffett owns a 4% stake in **Occidental Petroleum** and has 36 million shares worth \$607.55 million. He also owns 1% of Canada's **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). Warren Buffett has 15 million Suncor shares worth \$285.6 million as per the latest SEC filings.

Suncor stock is currently trading at \$26.47, which is 41% below 52-week highs. Energy stocks have rebounded in the last month but continue to remain volatile. Shares of Suncor have risen over 75% since March 18 this year. So, should you invest in this Canadian energy giant right now?

Falling oil prices are a major concern

The price of Western Canadian Select (WCS) crude has fallen from close to US\$50 in May 2019 to its current price of US\$11.56. While these lower oil prices make producing the commodity unprofitable, Suncor is better poised than most to handle the downturn.

Suncor is an oil producer, refiner, and retailer. This means it is an integrated energy company. It should benefit from downstream operations that take place once the commodity is produced. Downstream operations are the process of converting oil into a finished product. Suncor's oil refinery assets may hugely benefit from lower input costs. However, due to excess supply, oil production is likely to fall in the near term.

Suncor also owns a number of oil refineries in North America as well as several Petro-Canada gas

stations. If lockdowns in Canada are lifted, there will be a surge in demand at gas stations during the summer.

Warren Buffett banks heavily on strong fundamentals

Warren Buffett has always invested in companies with strong financials. Such companies generally manage to survive multiple business cycles and generate positive returns for investors.

Suncor has no debt maturities this year and \$1.4 billion of debt maturities in 2021. With \$6.7 billion in liquidity, the company is unlikely to cut its dividends. Suncor has a forward yield of 7.03% which means a \$10,000 investment in the stock will generate annual dividends of \$703.

In terms of valuation, Suncor has a forward price-to-sales ratio of 0.9 and a price-to-book ratio of 0.8. While the oil giant will most likely post a net loss this year, earnings are estimated to rebound in 2021.

Analysts expect sales to fall 22.2% in 2020, and the earnings decline is forecast at a massive 140%. Comparatively, sales might rise by 16.9% in 2021 while earnings might rise 153.6%.

Suncor reported [record operating funds](#) of \$10.8 billion in 2019. Its earnings also rose from \$782 million in 2019 from \$580 million in 2018. It increased dividends for the 18th consecutive year. The company's dividend has risen 66% in the last five years.

We can see that Suncor's recent decline is due to macro-economic factors and not weak fundamentals. It remains one of the top energy stocks in North America.

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