



Warren Buffett's \$10 Billion Bet: Here's How to Mirror it the Canadian Way

Description

Warren Buffett's US\$10 billion bet on natural gas assets came as a surprise to many who thought he'd continue sitting on his hands through this crisis. The [coronavirus](#) is an unpredictable beast that could undoubtedly drag down the economy under a [bear-case scenario](#). And although it's that much harder to evaluate the stock market because of headwinds and the uncertainty as to how long this pandemic (and its headwinds) are going to last, it makes sense to pick your spots in sectors of the market that will, in time, bounce back. Moreover, if you can get a great price, you'll also stand to do well, regardless of where the markets go next.

That's the beauty of being a self-guided stock picker. You don't have to invest in the hardest-hit areas of the economy that you're bearish on or don't have a full understanding of. You can pick and choose areas of the market that you feel confident in, and, as a result, you can roll with the punches that Mr. Market will continue throwing our way better than passive investors who opt to settle with the broader indices that have both the good and the bad.

Warren Buffett's big bet on the natural gas scene, I believe, is a slight hint that it's time for Canadian investors to stop shunning the once loved but now out-of-favour pipelines — not just the midstream operators that transport natural gas, but those that transport liquids such as oil, which are also heavily out of favour at this juncture.

Betting on a cyclical turnaround

Fossil fuel commodities appear to be at the low end of the cycle. And if you've got a long-term time horizon that spans years, if not decades, it makes a tonne of sense to go with some of the higher-quality, financially flexible midstream players with stellar assets. Many Canadian pipeline stocks are depressed, despite their strong cash flow generation and their ability to continue weathering what Warren Buffett's right-hand man Charlie Munger referred to as a "typhoon."

Cyclical rebounds can be rewarding, but you've got to make sure you've got the temperament to deal with short- to medium-term pain for a shot at outsized long-term gains. Have a strong preference for robust assets, sound balance sheets, and "growthy" cash flow generation.

Consider shares of a midstream kingpin like **TC Energy** ([TSX:TRP](#))([NYSE:TRP](#)), which appears more like a utility than a company that's in the ailing energy industry. The company transports natural gas and liquids across its impressive network. While the pipeline is less sensitive to those near-term commodity price fluctuations, the recent implosion in demand for commodities that TC Energy transports does not appear to bode too well for the long-term fate of the entire sector. As a result, even the top midstream players have been dragged down amid the hailstorm in Canada's energy sector.

TC Energy is a great Canadian way to mirror Warren Buffett's latest US\$10 billion bet

While it's hard to tell when commodities like natural gas will recover, it's only prudent to be in names like TC Energy that can compensate you for your patience over time. The stock sports a 5.5% dividend yield alongside a 0.73 beta. The dividend, while under a bit of pressure, looks destined to survive this crisis. So, if you're a value-conscious income investor, now is as good a time as any to mirror Warren Buffett's move into out-of-favour commodity pipelines (such as natural gas) with a bet on TC Energy while shares trade at a mere 1.9 times book.

With a 0.5 current ratio and a high 1.95 debt-to-equity ratio, TC Energy isn't the most liquid company in the world. But if you're of the belief that commodity prices will normalize once the pandemic passes, TC Energy looks like a worthy bet while it's out of favour.

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