



Why Warren Buffett Bought More Suncor Energy (TSX:SU) Stock

Description

In a [prior piece](#), I thought it would be a good idea for Warren Buffett to add to his stake in Canadian oil kingpin **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) after the latest barrage of [damage](#) done to the stock.

The company had a strong balance sheet before it took its dividend to the chopping block. After a 55% dividend reduction, Suncor now has a Fort Knox-like balance sheet, making it one of few oil sands operators that's capable of holding its own should the tides go out further on the Albertan oil patch.

Suncor battens down the hatches amid unprecedented headwinds

Sure, Suncor may have lost some fans with its dividend cut. Still, I thought it was only prudent to prepare for a potential bear-case scenario that's a realistic possibility amid the COVID-19 pandemic. While oil prices have since regained ground lost back in March, it'd be unwise to assume that the worst is over for energy producers and that COVID-19 is no longer a concern for energy investors.

The insidious coronavirus is still out there, and anytime localities take the pressure off containing it, nasty outbreaks tend to ensue. A worsening of this pandemic could continue weighing on energy demand.

Predicting oil prices can be a dangerous game. There are far too many variables to conclude where either WTI or WCS prices are headed next. Given oil's brief slip into negative territory earlier this year, investors must acknowledge that anything can happen with regards to oil prices over the near to medium term.

While WTI prices look to have stabilized in the low US\$40 levels, there's no telling what the next move will be, as it'll likely depend on the pandemic's next move. And in the background, renewable energy producers are picking up traction, acting as a modest secular headwind for all firms involved with the production and distribution of fossil fuels.

There are a plethora of seemingly insurmountable headwinds in the Albertan oil patch right now. But that's not to say you should avoid the sector, especially given how depressed valuations have become in recent months.

Warren Buffett reaches for quality in a battered industry

Warren Buffett used to be a cigar-butt investor, but these days, he's all about buying pieces of wonderful businesses at fair to wonderful prices, and at today's levels, Suncor fits the bill. The oil patch is an ugly place to invest, but Suncor is a best-in-breed operator with a balance sheet that's now head and shoulders above most of its peers in the space.

If a worst-case scenario ends up panning out, and WTI falls to the teens, as the tides go out on the oil patch again, Suncor will be one of few firms that will still have its trunks on. The same can't be said for most other players out there right now.

While Suncor's 3.8% dividend yield leaves a lot to be desired, one has to find comfort in knowing that the payout is among the safest in the sector. With Suncor, Warren Buffett is going for the best player on a team that otherwise stinks. He's following his own advice and is being greedy on a name while others are fearful.

Foolish takeaway

If you've got a long-term time horizon, now is a great time to build a stake in the heavily out-of-favour Canadian energy kingpin, while the stock is trading at a modest discount to its book value. Of all Canadian energy firms, Suncor looks the most financially flexible. This, when combined with the stock's undervaluation, is a major reason why Buffett likely added to his stake in the name.

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