



Warren Buffett Added to Suncor (TSX:SU) Stock: Should You?

Description

Warren Buffett's **Berkshire Hathaway** started a position in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock in Q4 2018, during which the energy stock traded as low as \$34 a share.

Essentially, Suncor stock has been on a slide since. At writing, it trades at below \$21 per share, down about 38% from the \$34 level.

Suncor stock offers more than just the dividend

Suncor Energy used to be a blue-chip dividend stock. Heck, it even announced a dividend hike of 10.7% in February that would have marked the year 2020 its 18th consecutive year of dividend growth — if it didn't cut its dividend by a hefty 55% in May.

The COVID-19 pandemic was a quick turn of events that promptly changed the near-term outlook of the energy sector.

[Warren Buffett](#) loves dividends. Understandably, in late 2018, Suncor stock's dividend was still sustainable. The advent of the pandemic outbreak in early 2020 immediately made Suncor stock's dividend much less certain. Then why did Berkshire add an extra 28% of Suncor stock in its stock portfolio in Q2?

The stock must offer more than just its dividend. The other component in the total returns equation is price appreciation.

A better H2 outlook

Due to the COVID-19 pandemic and other factors, the first half of the year (H1) was bad news for Suncor and other energy stocks. In Q2, Suncor reported revenue of \$4.2 billion, down 58% from the prior year's quarter. Net loss of -\$614 million was more than five times worse than the net income posted in the prior year's quarter. The diluted loss per share was also five times worse year over year.

Since the H1 results were horrible, the results of H2 and 2021 are expected to be much better.

Suncor stock is a good buy now

Currently, at \$20.89 per share a piece, Suncor stock is trading at even lower levels than the Q2 trading range. In other words, investors can buy the stock at a cheaper price than Berkshire Hathaway. But should they take a position?

Here's what Suncor stock offers today.

Suncor's quarterly dividend is \$0.21 per share. Despite a dividend cut, because the stock has declined 45% from a year ago, it still yields a good 4% yield from current levels.

Investing is forward looking. Irrespective of how badly the energy stock has done in the past year, investors must make an educated guess on where it will be 12 months to five years from now, depending on their investment horizon.

Analysts have a 12-month average price target of \$31.90 per share on Suncor stock, which suggests there's near-term upside potential of nearly 53% on top of the 4% dividend.

This makes Suncor stock a very attractive total return investment.

The Foolish takeaway

Suncor still maintains a decent investment-grade S&P credit rating of BBB+. It offers more than just a 4% dividend today. A 12-month price appreciation of more than 50% is also in the cards.



SU data by YCharts.

[Suncor stock](#) is trading at a cyclical low — levels last seen in the previous recession about 11 years ago. An investment in the stock today can double in three to five years from price appreciation alone.

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