



## Suncor Energy (TSX:SU): Warren Buffett Just Increased His Stake in This TSX Giant

### Description

According to **Berkshire Hathaway's** recent 13F filings, the company has increased its stake in Canada's energy infrastructure giant **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). Warren Buffett's investment firm held 14.94 million shares in Suncor at the end of March 2020. Its [holding increased to 19.94 million shares](#) at the end of Q2.

Warren Buffett now owns US\$318.36 million in Suncor stock indicating a 1.3% stake in the company. While Buffett has been a net seller of equities in 2020, his investment in Suncor should encourage investors.

Berkshire Hathaway holds a position in Suncor since the fourth quarter of 2018 when the stock was trading at \$34 per share. Suncor was then a blue-chip dividend-paying company. It, in fact, raised dividends by 10.7% in February 2020 which would have been the company's 18<sup>th</sup> consecutive year of dividend increases.

However, the COVID-19 pandemic wreaked havoc and decimated energy stocks that were hurt by global lockdowns and a price war between Saudi Arabia and Russia, resulting in a massive oversupply of crude oil.

Suncor Energy had to cut its dividends by 55% to improve short-term liquidity amid the ongoing crisis. The stock fell over 50% during the COVID-19-led sell-off and is currently trading at \$22 per share at writing. Its dividend yield stands at 3.83% which makes it an attractive pick for contrarian and income investors.

## Should you follow Warren Buffett and invest in Suncor stock?

Warren Buffett is a big fan of companies that generate cash flows and pay dividends. So, why did the Oracle of Omaha increase his stake by 33.5% in Canada's energy behemoth despite a dividend cut? Clearly, the near-term volatility will hurt Suncor's cash-generating ability. Does this mean Buffett thinks

the worst is over for energy companies and that Suncor stock can gain significant momentum over the next few months?

In the June quarter, Suncor [reported sales of](#) \$4.2 billion, down by a significant 58% year over year. Its net loss stood at \$614 million in what was the worst quarter for oil stocks in several decades.

However, Suncor is currently valued at a market cap of \$33.5 billion. Its price-to-sales multiple of 1.1 and price to book ratio of 0.92 indicates that the stock is cheap. Earnings are also forecast to rise at an annual rate of 20% between 2021 and 2024.

Suncor remains a solid company given its huge presence in North America. The company can take advantage of rising oil prices in the future by additional drilling and can alternatively hedge against a weak pricing environment by leveraging its downstream operations.

In 2019, its funds from operations touched a record high of \$10.8 billion and the company returned 45% to shareholders via dividends and stock buybacks.

In 2020, its capital expenditure is forecast between \$3.6 billion and \$4 billion, down from its earlier estimates of between \$5.4 billion and \$6 billion.

## The Foolish takeaway

The oil patch remains a tricky investment given a variety of unknown variables. However, Suncor's strong balance sheet, focus on liquidity and low valuation make the stock an enticing bet that's trading at a multi-year low.

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2. TSX:SU (Suncor Energy Inc.)

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