



Is Warren Buffett Right to Bet on Suncor Energy (TSX:SU)?

Description

Warren Buffett's bet on Canadian energy kingpin **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) has raised many eyebrows. Many investors, both retail and institutional, have thrown in the towel on the oil patch. Canadian crude, which faces its own set of hurdles in addition to the low price of oil, is viewed as so unfavourable on the Street that you'd look foolish (that's a lower-case *f*) for even thinking about placing a bet on the ailing Albertan oil patch.

The oil sands operators were in a world of pain well before the coronavirus crisis decimated the fossil fuel energy industry. Indeed, the international health crisis acted as salt in the wounds of an already hurting sector.

The perfect storm in the oil patch

For Suncor Energy and its peers, they're navigating a perfect storm right now. Oil prices delved into [negative territory](#) back in the second quarter before quickly recovering. That perplexing situation, combined with Suncor's more recent 55% dividend reduction, was more than enough reason for most to rid their portfolios of even the best-in-breed players in the oil sands.

It's hard to imagine how things could have gotten worse for Suncor.

Things did get worse, though. Just last month, Suncor pulled back on its production again following an accident that caused a fire at one of its oil sands mines, causing shares of SU to plunge nearly 9% in response.

Undoubtedly, the sentiment surrounding Suncor is at a new low. And as one of the best contrarians in the investment world, Warren Buffett has been accumulating shares, following his own words of wisdom of being greedy while others are fearful.

Should you risk going against the grain with the Warren

Buffett's preferred way to play the Canadian oil patch?

Today, Suncor stock has garnered significant downside momentum. Suncor stock is quickly approaching its March lows, and with a dividend yield that could swell above the 5% mark (the dividend payout is more than safe following its previous dividend cut). I think the recent retreat is overblown beyond proportion and would encourage investors to ride on Warren Buffett's coattails by looking to scale into a position in the name on the way down.

Sure, there are few catalysts to get excited about over the medium or long term. But if you've got the patience to wait for the headwinds to fade in the oil patch, there's deep value to be had once Mr. Market finally gets reasons to correct his mispricing in shares of Suncor. Many investors have shunned the fossil fuel sector entirely, causing excessive selling pressure against even best-in-breed names like Suncor. Indeed, it seems as though investors crave reasons to ditch their shares of Suncor, and with the mid-August mine fire, they got it.

While there's no telling when Western Canadian Select or West Texas Intermediate prices will bounce back (there are far too many variables to predict where oil is headed next), I think it makes sense to scoop up a best-in-breed player like Suncor at this time of near-maximum pessimism. While fossil fuels are in secular decline, Canadian crude isn't going to zero anytime soon. And once this pandemic ends, crude could post a modest recovery as demand looks to normalize.

Foolish takeaway on Suncor Energy

At the time of writing, Suncor stock trades at 0.8 times book value, making the name a must-buy for Warren Buffett fans and [value-conscious income investors](#). Like with most deep-value plays, though, you'd better ensure you're willing to hold for at least five years, because Suncor remains an untimely play that could hurt those looking to make a quick buck off a bounce.

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