



Warren Buffett Advice: Hold onto Suncor (TSX:SU)

Description

Warren Buffett is famous for primarily investing in U.S. companies. However, he has made major acquisitions in multiple companies around the world. One of his Canadian holdings is the Canadian energy kingpin, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). The second company he owned in Canada was **Restaurant Brands International**, which he ditched in a [surprising recent move](#).

Of the two Canadian companies that he invested in, he chose to go with the one that seems least likely to be successful. Buffett's decision to remain invested in Suncor raised eyebrows and turned heads because many investors have abandoned their bets on the oil patch.

What's happening on the oil patch?

The energy sector was in trouble even before the pandemic struck. The oil sand operators were suffering from the oil price wars' effects, and the global health crisis made things even worse for the already down industry.

Suncor and its peers are in a very strange position right now. Things are quite bad from oil prices going to a record low of *negative* territory to the diminished crude oil demand. Suncor's recent slashing of its dividends by 55% also led to most investors letting go of their positions in the company.

To make matters worse, Suncor reduced its production in August due to an accident that caused a fire on one of its oil sands mines. It makes sense that the overall investor sentiment from individual and institutional investors about Suncor is not favourable. However, Buffett chooses the contrarian path and has been accumulating shares of the company. He is following his advice about being greedy when others are fearful.

Should you follow Warren Buffett's advice?

Suncor does not look like it is in a good position. The stock is trading for \$16.89 per share at writing and is rapidly approaching its March 2020 low valuation. The dividend yield is at almost 5% and could

go higher if the price goes down further. Everybody is fearful, but should you be?

Things could get better if oil prices begin to recover to better levels, and international transportation increases. While many people are trying to move away from the fossil fuel sector, it has an inherent value. Fossil fuel may be gradually phased out, but the crude oil value will not become zero overnight. Crude oil could post a recovery once the COVID-19 crisis subsides.

Foolish takeaway

If you are willing to bet that the fossil fuel sector will bounce back strongly, making a contrarian [bet that follows Buffett](#) could be the way to go. Suncor is the best in class when it comes to oil sector operators in Canada. There are still too many undecided variables that can affect where the oil and gas industry will go.

If you plan to invest in Suncor, remember that there is a risk that things can get much worse before they start getting better. I would recommend holding onto the stock only if you can bear the short-term pain that could persist during the pandemic.

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