



## Warren Buffett-Approved Suncor (TSX:SU) Just Hit a Major Buy Signal

### Description

Warren Buffett's investment in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) hasn't been going too well. The integrated Canadian energy kingpin has been through a [hailstorm](#) of a year, with its [shares imploding 66%](#) from its January high to its March trough before recovering partial ground only to surrender all of it in the latest round of selling.

The coronavirus disease 2019 (COVID-19) pandemic decimated an energy industry that was already under a considerable amount of pressure. With the stock back at its multi-year lows, investors now have a rare opportunity to scoop up the Warren Buffett-approved value stock at a better cost basis than the Oracle of Omaha himself.



## The case for going against the grain with Warren Buffett fave Suncor

There's no question that there's a tonne of negative momentum in the name. Catching a falling knife can be harmful to your wealth over the short term. But with a strong technical level of support at around \$15 and change, I'd argue now is a great time to go against the grain if you've been thinking about initiating a contrarian position in one of the most hated stocks on the **TSX Index**.

We're all about the fundamentals here at The Motley Fool Canada. Still, I'm in the belief that with falling knives like Suncor that the technical picture can help reinforce an already sound fundamental investment thesis. While the medium-term outlook for Suncor seems gloomy, the longer-term (five years out) fundamentals still seem quite bright, especially if you can get into SU stock at a near 30% discount to book value.

Only time will tell whether the support level will hold, but if you've got a time horizon that spans years and not months, I'd say the risk/reward is more than compelling given the ever-improving balance sheet and the now severely depressed valuation. Suncor stock is close to the cheapest it's been in recent memory.

Still, given the profound headwinds that the Albertan oil patch is facing right now, the dirt-cheap stock could become a heck of a lot cheaper over the coming months. So, contrarians had better be ready for more of the same stomach-churning levels of volatility through this crisis.

## Suncor: WTI back on the retreat amid a worsening pandemic

The world is starring down a second wave of COVID-19 cases, which could further weigh on oil demand. In recent weeks, we've witnessed West Texas Intermediate (WTI) prices beginning to exhibit weakness. At the time of writing, WTI has pulled back to US\$36 and change. Should the negative momentum pick up, the tides will stand to go out further in the oil patch.

Fortunately, Suncor finds itself in a position of financial strength following its prior 55% dividend reduction and various capacity cuts. With plans to cut approximately 2,000 jobs (or around 10-15% of its current workforce) over the next 18 months, Suncor's already strong balance sheet will become that much more robust, better-improving its chances of weathering the typhoon faced by the oil patch.

Suncor is battening down the hatches, and it's best-equipped to navigate another rough patch of waters that could last well into 2022. With a now well-covered 5.3%-yielding dividend, Suncor won't be borrowing money to pay shareholders like many of its financially-distressed peers that lack a robust integrated cash flow stream.

The way I see it, Suncor has already ripped the Band-aid off and could be in a spot to lead the next upward charge if things aren't as horrific as they seem today. Warren Buffett isn't looking to "play" the price of oil. He likely sees a best-in-breed company trading at a considerable discount to its intrinsic value.

### Foolish takeaway

With Suncor nearing a critical support level, I'd be inclined to load up on oversold shares of Suncor, as they look overdue for a bounce, especially given most of the negatives regarding a second wave and retreating oil prices are already baked into the stock.

If Warren Buffett loved Suncor at north of \$20, he must be licking his chops at the thought of buying more while they're trading at a fraction of the price. I don't think anything has fundamentally changed and investors should think about getting into the name this October.

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