Is Warren Buffett Bullish on Suncor (TSX:SU) Stock?

Description

Warren Buffett's **Berkshire Hathaway** owns 19.2 million shares of **Suncor Energy** (TSX:SU) worth $324 million, according to the former's 13F filings for Q2. Suncor Energy has lost over 60% in 2020 and Warren Buffett increased his stake in the Canadian energy giant in Q2 by five million shares.

While Warren Buffet bought the dip in Suncor should you follow suit and buy the stock at a significantly lower valuation? The Oracle of Omaha is a fan of companies that generate stable cash flows and pay dividends. Energy companies that are capital intensive tick most of these boxes but are also impacted by volatility in crude oil prices.

Energy companies have been a train wreck in 2020 due to the price war between Russia and Saudi Arabia as well as the ongoing COVID-19 pandemic.

Suncor reported an operating loss of $1.5 billion in Q2 or $0.98 per share, compared to a profit of $1.25 billion in the prior-year quarter. We can see why investors have been wary of Suncor, driving its stock price significantly lower in recent months.

Suncor is an integrated oil company and has its own operations for the refining and distribution of products. This model allows the energy heavyweight to sell products directly to end consumers. Suncor is a major energy player that was instrumental in pioneering the development of the Athabasca oil sands in Canada which is one of the world's largest petroleum resource basins.

It now has a portfolio of quality assets and its operations include oil sands development and upgrading, petroleum refining, product marketing as well as oil and gas production. The company is also focused on expanding its renewable assets portfolio.

Is Warren Buffett right in increasing his stake in Suncor?

Suncor's business model allows it to hedge against a weak pricing environment as it is well poised to leverage downstream refining operations. The company can also take advantage of rising oil prices in the future and increase drilling activities.

Suncor should generate solid profit margins on its refined products that are produced from the Canadian Tar Sands. It also has access to high demand and fast-growing markets in Asia via the Canadian West Coast.

In order to improve liquidity, Suncor has already slashed its dividends by 55% in early 2020. The company reduced capital expenditure by 33% or by $1.9 billion and forecasts to reduce operating spend by 10% or $1 billion in 2020.

Suncor also adjusted the utilization of its refineries and flexed its product mix to improve profit margins in the June quarter. As consumer demand increased in the second half of Q2, Suncor increased gasoline production. Its refineries also averaged 80% utilization in Q2 which was 15% above the industry average.

The Foolish takeaway

We can see Suncor is trying its best to survive the ongoing downturn. Despite the massive dividend cut, the stock still has a tasty dividend yield of 5%, but this is majorly attributed to its stock decline in 2020.

While Suncor's cost reduction efforts will allow it to hold its own in the near-term, there's a good chance for the company to entirely suspend dividends in case oil recovery is delayed.

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