



Warren Buffett Believes in Suncor Energy (TSX:SU), and You Should, Too!

Description

Suncor Energy ([TSX:SU](#))([NYSE:SU](#)) has been one of Warren Buffett's biggest losers over the past year. Shares of the integrated energy kingpin have fallen drastically out of favour in recent months, nosediving 47% since its March peak, surrendering all of the March-June relief rally gains in the process.

Just over a week ago, Suncor stock touched down with its [ominous](#) March lows at around \$15, and I've been encouraging investors to back up the truck on the Warren Buffett-approved stock before it has a chance to bounce off its key support level. With Suncor shares bouncing back 6.4% Thursday on a major up day for battered fossil fuel stocks, should investors seek to load up on the name, as Suncor looks to sustain a reversal? Or is Warren Buffett wrong to go against the grain with a fossil fuel play amid a worsening energy crisis?

Green is in; oil is out

Renewable stocks have gained the edge over the ailing fossil fuel plays in a huge way of late.

As I described in a [prior piece](#), though, I think many green names have drastically overshot to the upside in recent months, likely because former U.S. vice president Joe Biden has been leading in the polls. If President Trump ends up winning, I wouldn't at all be surprised to witness a renewable-driven sell-off, while fossil fuel plays like Suncor look to correct to the upside.

Suncor and its out-of-favour peers in the Albertan oil patch aren't just a way to play the U.S. election outcome, though. While renewable stocks have overshot their intrinsic value ranges, many fossil fuel stocks have likely vastly undershot theirs, and I believe that creates an opportunity for deep-value investors who are willing to go against the grain.

Indeed, it can be challenging to evaluate a company like Suncor at a time like this. The stock now sports a nearly 30% discount to book value, as many turned their back to the former dividend darling. With a remarkably strong balance sheet and a relatively resilient integrated cash flow stream, Suncor undoubtedly looks akin to the best player on a hockey team that just plain stinks. But once the rest of

the team picks its game up, I suspect Suncor could stand to be a major leader.

Why is Warren Buffett sticking with his contrarian stance on Suncor stock?

Warren Buffett doesn't strike me as a man who's looking to "play" commodity prices over the near term. Instead, he's one to scoop up shares of wonderful businesses that he thinks trade at a discount to his estimate of the intrinsic value.

Suncor and its peers in the oil patch are under an unfathomable amount of pressure, and oil demand could continue to wane throughout this pandemic. Buffett may not know where WTI prices are headed over the next month or year, but he probably thinks that WTI won't stay at these depressed levels forever.

Once the pandemic finally concludes, it's reasonable to expect WTI prices to creep towards normalized pre-pandemic levels. Right now, in the heat of the moment, it seems as though most investors want nothing to do with fossil fuels, even if it means passing up on the mouth-watering valuations. For most, the short-term pain looks too immense for the shot at outsized gains.

Even if this pandemic continues to weigh on WTI prices for another year or two, Suncor is a destined survivor. Warren Buffett gave his stamp of approval on the name at much higher prices, and today, value-conscious contrarian investors have a chance to land a much better cost basis than the Oracle himself. With shares near technical support, I think Suncor stock is one of the timelier opportunities out there today.

Foolish takeaway on Suncor stock

It's hard to invest in fossil fuels amid this hailstorm. But if you're willing to look past 2021, I think it would be wise to mimic Warren Buffett with a position in heavily out-of-favour shares of Suncor while they're still down and out.

Not only is Suncor able to navigate through another wave of rough waters without tipping over, but shares are absurdly discounted, with a technical picture that I think looks the most attractive it's been in months.

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