



## Was Warren Buffett Right in Increasing His Stake in Suncor (TSX:SU) Stock?

### Description

According to **Berkshire Hathaway's** 13F filings for Q2, the company bought around five million shares of Canada's energy giant **Suncor** ([TSX:SU](#))([NYSE:SU](#)). The Warren Buffett-owned company now has 19.2 million shares of Suncor worth US\$217 million.

Suncor stock has been on a downward spiral for a few years now. In fact, the company never recovered from the oil crisis of 2014 and has underperformed the broader indexes in the last decade. The COVID-19 pandemic and oil price war between Saudi Arabia and Russia further [exacerbated this decline](#).

Suncor stock is currently trading at \$15.1, which means it has fallen 73% since July 2018.

### Does Warren Buffett expect oil companies to stage a turnaround?

It seems Warren Buffett is a fan of Suncor's long-lived assets, which are oilfields that have an average life of 26 years. This has enabled Suncor to generate stable cash flows and pay dividends to shareholders. Suncor started dividend payments in 1992 and increased payouts consistently till the financial crisis of 2008. The company cut its dividends by 55% in April due to the pandemic, and despite this massive decrease, it has a forward yield of 5.6%.

Suncor confirmed it requires WTI prices to be north of \$35/barrel to meet operating costs, dividend payouts, and capital expenditures. This means if the second wave of COVID-19 cases results in another round of lockdowns, there is a chance for Suncor to suspend its dividends entirely.

In the third quarter, Suncor's funds from operations rose to \$1.16 billion, or \$0.76 per share, up from \$488 million, or \$0.32 per share, in Q2. In the prior-year quarter, its funds from operations was significantly higher at \$2.67 billion.

The company's cash flow from operations was \$1.24 billion, down from \$3.13 billion in the prior-year

period. Further, it reported an operating loss of \$302 million, or \$0.20 per share, compared to an operating income of \$1.11 billion, or \$0.72 per share, in Q3 of 2019.

## What's next for investors?

Suncor claimed it is on track to reduce operating costs by \$1 billion and capital costs by \$1.9 billion in 2020. Suncor CEO Mark Little [said](#), "We are disappointed with our recent operational performance so we are strengthening our focus on the company's commitment to reliability. We remain focused on operational excellence and on continuing to make the right long-term decisions to advance our asset sustainment and strategic initiatives aimed at improving reliability, increasing margins and reducing operating costs across our assets."

We can see Suncor has managed to gain momentum at least on a sequential basis. However, the company's sales in 2020 are forecast to fall by 33.5% to \$26 billion. Comparatively, analysts expect earnings to reduce from \$2.79 per share in 2019 to -\$1.46 per share in 2020.

According to Bay Street, Suncor's earnings might improve to \$0.32 in 2021, but this indicates a forward price-to-earnings multiple of 47, which is lofty given the uncertainties surrounding the energy sector.

Alternatively, analysts tracking Suncor have a 12-month price target of \$27.5, which is 82% above the current trading price.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
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### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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