



## This Warren Buffett Stock Surged 25% in a Day: Buy the Bounce?

### Description

**Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), Warren Buffett's preferred way to play the battered Albertan oil sands, skyrocketed 25% in a single trading session, as oil prices crept higher on news that **Pfizer's** vaccine was 90% effective in trials conducted thus far.

The big news caused a profound rotation out of COVID-resilient plays into the most beaten-up stocks that have been on the receiving end of the COVID crisis in recent months. For energy stocks, which have taken the biggest hit to the chin at the hands of the crisis, the bounce was a long time coming.

I've been a pretty harsh critic of Suncor Energy in the months following the February-March sell-off but changed my tune when the stock touched down with its \$15 support level, urging investors to buy the dirt-cheap stock before it had a chance to ricochet.

After the glorious single-day rally, Warren Buffett is still likely down big on his investment in the name. But with a new hope for the ailing oil patch, are the fortunes about to turn for big energy? Or should you take profits at around the level that Warren Buffett last added to his position?

### A king among men in the oil patch

Clearly, Warren Buffett has his contrarian hat on with Suncor. It's a best-in-breed integrated energy company in the Canadian oil sands, with its strong balance sheet and relatively robust operating cash flows. Still, the hailstorm in the energy sector has not left Suncor stock unspared, as the broader basket of fossil fuel plays folded this year. The pressure was so much that management decided it'd be a good idea to reduce its dividend payout by 55%.

With all eyes on the end of the pandemic, West Texas Intermediate (WTI) prices could continue to inch back to those pre-pandemic levels through 2021. But don't expect much more than US\$55 oil, as producers are likely to turn the spigot back on as demand shows signs of modest improvement.

Given Suncor is one of the best-equipped names to thrive in a "lower for longer" oil prices environment, the stock could still have room to run over the course of the next three years as investors shed their

fear of fossil fuels and rotate back into neglected value stocks. But don't just buy into those [insanely high](#) analyst price targets that call for north of 50% in year-ahead upside, though.

Commodity prices are notoriously difficult to predict. Even once the pandemic ends, energy stocks will remain under pressure, as they'll continue to be operating on the wrong side of a secular trend. *Mad Money* host Jim Cramer thinks that the recent rally in out-of-favour oil names is an opportunity to get out, as he maintains his bearish stance on the oil market.

## Follow Warren Buffett or throw in the towel on all things oil?

Suncor remains one of the best and most prudent ways to invest in the ailing oil patch. I think the name deserves to get a free pass from those looking to rid their portfolios of exposure to fossil fuels on the latest bounce. Suncor's freshly-cut dividend (currently yielding 4.4%) is sustainable, and the stock could have a tonne of upside if an unforeseen WTI rally in the post-pandemic world.

That said, I wouldn't chase Suncor here, even if you are itching to invest alongside Warren Buffett in the name. A 25% single-day pop leaves Suncor at risk of a significant retracement. If you're keen on the name, I'd wait for a dip below \$18, which could realistically be in the cards in a few weeks.

As for now, Suncor is no longer [my top pick for November](#).

### CATEGORY

1. Dividend Stocks
2. Energy Stocks

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2. TSX:SU (Suncor Energy Inc.)

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