



## Warren Buffett's Favourite Canadian Stock Is About to Erupt

### Description

Many investors wonder why Warren Buffett is a believer in **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)). The king of the oil sands remains in **Berkshire Hathaway's** stock portfolio despite its horrendous performance in 2020.

Rather than trimming down its position or dumping the entire holdings, Buffett's conglomerate even bought five million more shares in June. Suncor is unquestionably Buffett's [favorite TSX stock](#). He also picked up **Barrick Gold** in Q2 2020 but reduced its stake in the gold stock by 42.64% in Q3 2020.

### Additions and subtractions

Based on the S.E.C. filing as of September 30, 2020, Berkshire Hathaway holds about 19.2 million Suncor shares. Aside from Barrick Gold, Buffett reduced stakes in **Apple**, **JP Morgan Chase**, **PNC Financial**, and **Wells Fargo** during the quarter. Berkshire Hathaway added more of **Bank of America** plus three notable healthcare stocks: **AbbVie**, **Bristol-Myers**, and **Pfizer**. Suncor was untouched.

### Best-in-class

Suncor may have lost loyal investors since March 2020, and after the company slashed dividends by 55%. Others did not sell, perhaps because [Buffett is staying put](#). The GOAT of investing sees the erstwhile oil bellwether the best-in-class in the battered oil and gas industry.

On November 9, 2020, the stock popped 24.7% from \$15.28 to \$19.08 despite reporting dismal quarterly earnings. In the eyes of Buffett, Suncor Energy is a quality company. The company remains viable due to sound operational and financial management capabilities.

In Q3 2020 (quarter ended September 30, 2020), the company posted an operating loss of \$302 million versus operating earnings of \$1.114 billion in Q3 2019. Its operating loss in Q2 2020 was \$1.489 billion. Management's relentless focus on cost reduction and operational excellence paid off.

Notably, funds from operations increased to \$1.166 billion during the quarter, from \$488 million (+138.9%) the preceding three months. The significant decrease in crude oil and refined product realizations hurt the most. COVID-19 caused the crude oil, and crack spread benchmarks to decline by more than 25%.

## Operational excellence

Give credit to Suncor for reacting rapidly to changing market conditions. The company is entering the last quarter with an approximately 97% refinery utilization.

The interconnecting pipelines between the Oil Sands Base Plant and Syncrude are almost complete and ready for commission in Q4 2020. The bidirectional pipelines will enhance integration between these assets. It should increase Suncor's operational flexibility.

Suncor President and CEO Mark Little said the focus, for now at least, is on items within its control. While the recent operational performance was disappointing, the company will concentrate on operational excellence and continue to make the right long-term decisions.

The goal is to advance asset sustainment and strategic initiatives to improve reliability, increase margins, and reduce operating costs across all assets. Hopefully, structural changes will lower the cost base, preserve financial resiliency, and set the foundation for long-term value creation.

## Eruption is coming

A research note from Credit Suisse analyst Manav Gupta dated November 9, 2020, said Suncor is approaching an inflection point that will enable the stock to reverse its relative near-term underperformance.

Market analysts are bullish too. Suncor could erupt in the next 12 months and see its share price soar by 162.8% to \$53. No wonder Buffett is keeping the **TSX** stock.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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

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### Date

2025/08/28

### Date Created

2020/11/24

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