



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

Description

While **S&P 500** heavyweights such as **Apple** and **Bank of America** account for the majority of Warren Buffett's portfolio, the Oracle of Omaha also has positions in Canadian companies such as **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)).

At the end of Q3, **Berkshire Hathaway** owned 19.2 million shares of Suncor worth about US\$235 million. Warren Buffett has always been a fan of capital-intensive companies that own a diversified portfolio of cash-generating assets allowing them to derive a steady stream of cash flows and pay investors a dividend.

Suncor is an energy giant

Suncor is an integrated oil company with operations across the supply chain. However, it has been impacted by falling crude oil prices in 2020 which decimated its stock price this year. Suncor stock fell from its 52-week high of \$45 to a multi-year low of \$14 in just over one month.

While it has since surged to \$23.08, it's trading almost 50% below its early 2020 price. Suncor also reduced its dividends by 55% in April to improve liquidity amid a sluggish macro-environment that exacerbated the sell-off.

Since November, Suncor shares have made a strong comeback and have risen 47%. Its forward yield is still an attractive 3.64% which means a \$5,000 investment in the stock will generate over \$180 in annual dividend payments.

Suncor's Q3 results

Suncor ended Q3 with a refinery utilization of 95%, which indicates oil demand is starting to normalize. Its downstream business was a key revenue driver in Q3 and Suncor remains optimistic about this segment in Q4 and 2021.

During the earnings call, Suncor CEO, [Mark Little said](#), “Across the company, our cost and capital spend is tracking very well with our revised guidance. Despite the operational challenges, our model allowed us to fully fund our capital, our dividend and reduce debt in the quarter.”

The COVID-19 pandemic and economic shutdowns resulted in lower demand and falling profit margins for Suncor and peers. However, the company’s downstream operations in Q3 helped to offset a portion of this decline and generated \$600 million of funds flow from operations.

Suncor expects to reduce operating costs by \$1 billion year over year in 2020. In Q3, the company spent \$910 million in capital expenditure taking its year-to-date CAPEX to \$2.9 billion. For 2020, the company has forecast this figure to be between \$3.6 billion and \$4 billion.

Suncor said its reduced capital guidance range allows it to invest in assets to improve business efficiency, future operating costs and sustaining capital costs as well as help the company drive toward a \$2 billion incremental free funds flow target by 2025.

The Foolish takeaway

Warren Buffett increased his stake in Suncor stock by 5 million shares in Q2. This would have allowed Buffett to average out his losses by purchasing the energy giant at a cheap valuation. However, there are a lot of uncertainties surrounding the global markets, which will weigh on oil prices in 2021.

If demand picks up, investors can expect Suncor stock [to stage a comeback](#) and generate outsized gains in the next 12 months.

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2. Energy Stocks
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2. TSX:SU (Suncor Energy Inc.)

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