



Invest Like Warren Buffett: 2 Canadian Stocks With Huge Upside Potential

Description

Warren Buffett buys oversold stocks that offer significant long-term potential for capital gains. His company **Berkshire Hathaway** bought large positions in two Canadian stocks in 2020.

Why Warren Buffett likes Suncor Energy stock

Berkshire bought shares of **Suncor** ([TSX:SU](#))([NYSE:SU](#)) last year. Canada's largest integrated energy company is best known for its oil sands production, but it also has downstream assets that include refineries and service stations.

Warren Buffett has other energy holdings, so the Suncor purchase isn't a surprise. The diversified nature of Suncor's businesses normally helps the firm ride out periods of weak oil prices. The refineries benefit from reduced input costs when oil prices fall and can generate large margins on the end products that include gasoline, diesel fuel, jet fuel, and asphalt.

In 2020, all three divisions got hammered due to the crash in fuel demand caused by pandemic lockdowns. As vaccines become more broadly available, the lockdowns will disappear. The International Energy Agency indicated in its December 2020 [oil market report](#) that global diesel and gasoline demand should return to 97-99% of 2019 levels by the end of 2021.

Jet fuel demand will take longer to rebound. The second COVID wave and delayed vaccination in parts of the world could keep international travel restrictions in place for much of the year.

Nonetheless, the medium-term outlook should be positive for Suncor. In fact, investors might not fully appreciate the impact the recent surge in oil prices could have on the bottom line. WTI oil is above US\$52 per barrel compared to US\$37 in November. Suncor's operational breakeven price is around \$35, so the company has the potential to generate strong returns at current prices.

Suncor trades near \$23.50 at the time of writing. That's up more than 50% from late October, but still way down from the \$45 it fetched in January last year.

Investors need to be patient like Warren Buffett, but Suncor appears [cheap](#) today for a buy-and-hold portfolio.

Why Warren Buffett changed his view on gold stocks

Berkshire bought **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) stock in 2020. It also sold a good chunk of the shares. Presumably after the big rally.

Warren Buffett historically avoided gold, but the tailwinds that prompted gold's rise to new highs last year remain in place and could drive the price of the yellow metal much higher.

Gold is priced in U.S. dollars. When the greenback falls in value against a basket of foreign currencies gold often moves higher. Analysts broadly expect dollar weakness to continue through 2021 with some targeting a 20% slide this year.

Gold also finds support in times of low interest rates. Bullion doesn't offer any yield, so the opportunity cost of owning it falls as returns drop in fixed-income alternatives. Treasuries from Japan and many European countries now trade at negative yields. This makes no-yield gold look pretty good for large institutional investors who have to find safe places to put money.

Barrick Gold raised its dividend by 12.5% when it announced Q3 2020 results. This is the third hike to the payout in 12 months. Net debt dropped to just US\$400 million in the quarter and free cash flow topped US\$1 billion. At current gold prices, Barrick Gold is a cash machine. That's probably why Warren Buffett now likes the stock.

Barrick Gold trades near \$30 compared to \$40 a few months ago, so the upside potential for TFSA and [RRSP investors](#) is attractive at this entry point.

The bottom line

Warren Buffett has a knack for seeing opportunity when the rest of the market runs for cover. Suncor and Barrick Gold appear cheap right now. The companies are leaders in their respective markets and could deliver big gains.

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