



## Warren Buffett Bets Big on Oil: Should You Buy Energy Stocks Too?

### Description

Warren Buffett's firm **Berkshire Hathaway** (NYSE:BRK.A)(NYSE:BRK.B) just released its portfolio changes for Q4 2020. The move includes another big bet on energy stocks, following a trend Warren Buffett began last year.

### Warren Buffett's energy picks

Berkshire revealed a US\$4.1 billion investment in shares of **Chevron** ([NYSE:CVX](#)). The move is interesting at a time when major institutional investors around the globe continue to dump or avoid positions that don't align with [ESG investing](#) criteria. Warren Buffett is known for contrarian investing, so it isn't really a surprise.

Buffett made other energy sector moves in 2020, indicating he has a bullish view on the oil and gas industry as the world looks beyond the pandemic. Berkshire bought **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) stock in a contrarian bet on Canada's largest integrated energy company. Berkshire also invested US\$10 billion to acquire natural gas transmission assets from **Dominion Energy**.

Chevron reported a [full-year 2020](#) loss of US\$5.5 billion, or US\$2.96 per share. The adjusted loss after special items came in at US\$368 million compared to adjusted earnings of US\$11.9 billion in 2019.

With a market capitalization of more than US\$180 billion, Chevron is one of the 10 largest oil companies in the world. The stock offers a 5.4% dividend yield at the current share price.

Warren Buffett obviously thinks the [dividend](#) is safe and the stock is cheap heading into the post-pandemic recovery.

### What about Suncor?

Berkshire's SEC form 13F filing for the end of Q3 2020 shows holdings of more than 19 million Suncor shares.

Suncor slashed its dividend by 55% last year to preserve cash. The stock fell from \$44 before the pandemic to \$15 per share. In recent months, however, Suncor moved higher on the back of the oil rally. The shares currently trade near \$24.

The surge in WTI oil from US\$36 in late October to a recent high above US\$60 lifted the entire energy sector. Suncor's share price still appears oversold when you consider oil now trades at a 13-month high.

The holdback on the stock might be due to Suncor's integrated business structure. Suncor's large refineries and chain of Petro-Canada service stations typically provide a hedge against dips in oil prices that hurt margins in the upstream operations.

The pandemic, however, is a unique situation. Oil prices fell due to a crash in demand for fuel. With airlines grounded and commuter cars parked in garages, demand for jet fuel and gasoline dried up. That hit refineries and gas stations, as well as the oil producers that saw WTI oil futures briefly trade in negative territory.

Commuters should be back on the road by the end of the year. Airlines might not see restrictions lift meaningfully until late 2021 or early 2022.

## Should you follow Warren Buffett and buy oil stocks now?

Analysts say the oil market is due for a correction after the latest surge, but the prospects for the next few years appear positive. Producers shelved hundreds of billions of dollars in investments last year. That could put a squeeze on supplies as post-pandemic fuel demand surges.

Stocks like Suncor appear cheap at current oil prices and could pick up a tailwind after the news of Warren Buffett's big move into Chevron. If you trust Warren Buffett's instincts, it might be a good idea to add some energy stocks to your portfolio.

### CATEGORY

1. Energy Stocks
2. Investing

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3. NYSE:CVX (Chevron Corporation)
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