



Warren Buffett Trimmed Suncor Stock, But it's Still a Buy

Description

The energy sector has been a sore point for many Canadian investors of late. Companies like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) continue to trade well below their pre-pandemic levels.

Yes, Suncor has rebounded significantly in recent months. However, it appears the slog for the energy sector is likely to remain a tough one. It appears Warren Buffett believes this to be the case. The Oracle of Omaha recently trimmed his position in Suncor this last quarter. Accordingly, some investors may take this as cause for alarm and start running for the doors.

Not quite yet. I believe there's lots of value with Suncor right now. Accordingly, I think Buffett's original value thesis when he bought this stock is better than ever.

Suncor stock has excellent fundamentals

Suncor's fundamentals have been greatly improved of late. I think this is an oft-underlooked but significant piece of the puzzle that many investors might be missing.

Suncor has been cutting its operating expenses, which has bolstered the company's bottom line. This oil producer is generating tons of free cash flow where oil prices are today. Accordingly, share buybacks of between \$500 million and \$1 million are being planned. This isn't a company that would plan these buybacks without pretty decent visibility into where cash flows will be in the future.

Additionally, with a breakeven cost per barrel of around US\$35 WTI, there's a pretty significant margin of safety with Suncor stock right now. I expect the company's cash flows to remain stable and will continue to grow if commodity prices continue to improve.

Furthermore, Suncor's juicy dividend yield of 3.2% (well, juicy compared to bond yields) should not be taken for granted. This is a stock which is the best in its class on a number of fundamental metrics compared to its peers. Indeed, I'd recommend investors bullish on a recovery in energy to take a look at the fundamentals first.

A rotation toward value (and commodities) underway

There are two separate catalysts here that are worth pointing out.

First, as a key energy producer, Suncor is beholden to commodity prices. Oil prices have done some crazy things of late, and some investors may remain wary of where oil prices have headed in the past. However, I think commodities could get a big shot in the arm over the medium term.

Why?

Namely, surging monetary and fiscal stimulus. As the U.S. dollar gets depreciated over time due to a surge in the money supply, commodities companies will benefit. This is because commodities are priced in U.S. dollars, and when a currency depreciates, it takes more dollars to buy whatever commodity good than it did before. Accordingly, this is extremely bullish for the sector, and Suncor is well positioned to be a key beneficiary of a rotation toward commodities.

Second, I think a rotation toward value is underway. Growth stocks are obscenely overvalued right now on a historical basis. As such, investors looking for value will be forced to look at sectors, like energy, that have been avoided for some time.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. dividend
2. dividend stock
3. Editor's Choice
4. investing
5. market
6. Stocks
7. value investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. dividend
2. dividend stock
3. Editor's Choice
4. investing
5. market
6. Stocks
7. value investing

Date

2025/08/25

Date Created

2021/03/02

Author

chrismacdonald

default watermark

default watermark