



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

Description

Warren Buffett has recently started doubling down on his energy sector investments while trimming his shares in tech companies and financial institutions. **Berkshire Hathaway**'s latest 13F filing with the U.S. Securities and Exchanges Commission revealed that [Buffett made a US\\$4.1 billion investment](#) in **Chevron** for an almost 2.5% stake in the American oil-producing giant. It indicates that Buffett is bullish about the energy sector.

The 13F filing also revealed that Berkshire has reduced its stake in Canadian oil sands giant **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) by 28%. Berkshire holds 13.85 million shares of the Canadian oil company worth \$393.4 million at writing.

Integrated energy infrastructure company

Suncor Energy is an integrated energy company with a massive \$43.33 billion market capitalization. Its operations include oil sands development, offshore oil production, biofuels, and even wind energy.

The recent trimming of Suncor's shares seems to indicate that Buffett has not been too confident in the Canadian energy company's performance. Berkshire initially established a stake in the company in 2013 but sold off all its shares in 2016. Buffett's company invested in Suncor again during Q4 2018 and has since reduced its position twice in the company.

Trading for \$28.41 per share at writing, Suncor is down roughly 32% from its valuation three years ago and 18% in the last five years. It makes sense that Buffett trimmed his shares in the stock due to its performance in recent years.

Better-than-expected results

The fourth quarter of 2020, the quarter that came after Buffett trimmed his shares in the company, showed that Suncor reported an operating loss of \$0.09 per share. Analyst expectations predicted a \$0.16 loss per share. The better-than-expected margins could be due to reduced operating expenses,

as Suncor enacted cost-cutting measures by reducing production.

Suncor achieved 95% utilization in downstream operations and outpaced its Canadian competitors by 20%. Despite a bearish broader market, Suncor's downstream business managed to perform better than its peers consistently, reflecting the benefits of customer integration and the company's competitiveness.

Suncor's upstream business produced 769,000 barrels each day during the quarter. During the company's earnings call, Suncor's CEO Mark Little said that the base plant and Syncrude upgraders are producing a combined 514,000 barrels a day of synthetic crude oil. This is the second-best quarterly production of synthetic crude oil for the company in its existence.

Foolish takeaway

The fact that Berkshire Hathaway reduced its stake in the company might have concerned investors who are bullish on the Canadian energy sector. However, Buffett splashing US\$4 billion in Chevron is a sign that he has a lot of faith in the sector's performance in the coming months.

The outlook for oil and gas has recently improved, and the commodity demand should gain pace once normalcy resumes. The [beaten-down stock](#) could be a worthwhile addition to your investment portfolio if you want to capitalize on the energy sector's growth like Warren Buffett.

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