Warren Buffett Exits Suncor Stock: Here's Why I'd Still Be a Buyer

Description

Suncor Energy (TSX:SU)(NYSE:SU) stock has shrugged off news that Warren Buffett, through his firm **Berkshire Hathaway**, had exited its remaining stake in the name, as revealed by the latest 13F filing. Berkshire has been trimming away at its Suncor stake for some time. Now that it's out, I think contrarian Canadian investors should look to punch their ticket in the name now that it has shed its "Buffett premium."

Warren Buffett exits Suncor, but why?

Suncor is a great company with a well-covered dividend payout that looks very well positioned to grow at an above-average rate over the next few years as oil prices continue their ascent out of their lows of last year.

While I'm sure Warren Buffett or the folks at Berkshire Hathaway have their reasons for exiting their Suncor stake, it would be a mistake to follow Buffett out of the name, especially if you're one of many investors who's looking to recover the ground lost in last year's coronavirus-induced market crash.

Although Warren Buffett is one of the greatest investors of our time, he's not immune to mistakes. He sold out of the airlines at a terrible time last year, and if you followed him, you likely walked away with some pretty nasty losses. It wouldn't have looked great for Berkshire to be a primary beneficiary of government relief. That's a major reason why Warren Buffett decided to take a hit with the airlines rather than ride the roller-coaster ride en route to post-pandemic normalcy.

As an individual investor, you didn't face the same issues that Buffett did. Berkshire held a massive amount of shares, and management didn't want to face scrutiny through the eyes of regulators or worse, ruin the airlines' prospects of a big bailout. Did Warren Buffett make a mistake by selling the airlines? Possibly, yes. But he had legitimate reasons for selling off his stakes — reasons that were not relevant to individual investors like you or me.

In the case of Suncor, Warren Buffett seems to have exited an already relatively tiny position in the company, which is a major reason why Suncor shares trended higher when it was revealed that

Berkshire had exited its position.

Suncor stock is still ridiculously cheap right now

At around $29 per share, Suncor stock is still a country mile (around 36%) away from its 2020 highs, a level I believe Suncor can realistically hit heading into year's end on the back of higher oil prices. It's hard to believe that West Texas Intermediate (WTI) prices turned negative just over a year ago. Now, they look to be en route to the US$70 mark. And the thought of US$100 prices is no longer nearly as far-fetched as it seemed since the commodity's collapse nearly seven years ago.

Suncor is still a best-in-breed oil operator. Nobody knows why Warren Buffett has been slowly exiting his stake in Suncor. We can only speculate for now. If I had to venture a guess, I'd say he dumped Suncor stock to raise capital to go after higher yielders ahead of an inflationary environment. Chevron and Verizon sport far richer yields (4.5-5%) than Suncor, which now yields south of 3%.

Suncor reduced its dividend last year, but it's a move that can easily be reversed as industry conditions improve for the better. As such, Suncor investors ought to stay the course and continue accumulating shares while they're still relatively cheap at just 1.2 times book value.

Bottom line on Suncor stock

The yield isn't all that it seems. I think it's far lower than it should be. As such, I expect generous dividend hikes to happen gradually over the next three years. Warren Buffett may want higher yields now, but if you're comfortable with waiting for a few hikes, I'd be more inclined to be a buyer following the Oracle of Omaha's exit from the name.

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Date
2025/08/24
Date Created
2021/05/19
Author
joefrenette