Buffett Pumps US$1.5 Billion More in Oil

Description

Renowned value investor Warren Buffett joins energy bulls following news that he made an additional US$1.5 billion investment in oil. Based on an SEC filing, **Berkshire Hathaway** bought 27.1 million more shares of **Occidental Petroleum** to increase the conglomerate's holding to nearly US$7 billion,

The GOAT of investing said in an interview that Berkshire started buying on February 28, 2022. He added, "We bought all we could." Buffett is now one of the thousands of investors riding on the momentum of oil stocks. Crude prices rose to record levels but tumbled more than 20% last week.

On March 21, 2022, *CNBC* reported that prices went up again. Brent crude and U.S. futures rose to US$111.46 and US$108.25 per barrel, respectively. According to Mizuho Bank, the lingering Russia-Ukraine uncertainty and the latest COVID impact in China pushed oil prices higher.

Meanwhile, **Suncor Energy** (TSX:SU)(NYSE:SU) continues to outperform due to the favourable pricing environment. The TSX stock was a long-time holding of Buffett until he cashed out in Q3 2021. Since Berkshire's exit, the energy stock has gained tremendously.

Missed opportunity

Suncor sold for $25.62 per share on September 30, 2021, but soared 49.7% to $38.35 on February 28, 2022. As of this writing, the energy stock trades at $39.12 for a year-to-date gain of 24.93%. Based on analysts' forecasts, the return potential in 12 months is between 18% and 53.4%.

Buffett has his reasons for dumping Canada's oil bellwether. However, had Berkshire stayed on, the returns to date would be higher to include the 100% increase in dividend payments. Suncor Energy is an outstanding choice for investors looking for exposure to the red-hot energy sector.

Shield the balance sheet

Suncor Energy incurred a multi-billion-dollar loss in Q1 2020, prompting management to slash dividends by 55%. Besides losing its Dividend Aristocrat status, the energy stock lost 47.7% in 2020. According to management, the move was necessary to shield the balance sheet.

Its president and CEO, Mark Little, said then, “During these unprecedented conditions, our strategy stands out as a competitive differentiator. Our physically integrated model, paired with our disciplined financial management and capital-allocation practices, provide resiliency through these rapidly changing market conditions.”

However, the energy stock made an incredible comeback in 2021, rewarding investors with a 53.9% overall return for the year. More importantly, Suncor exceeded its return to shareholder targets for the year. In Q4 2021, management doubled the quarterly dividend and brought it back to 2019 levels.

For the full year 2021, the $55.99 integrated energy company paid $1.6 billion in dividends. Also, the repurchase of its common shares ($2.3 billion) during the year was the highest annual rate in Suncor’s history.

Value enhancement

According to Little, Suncor is well positioned to execute its 2022 strategic initiatives. Apart from optimizing its existing base business, the company will focus on operational excellence and shareholder returns. It also expects to reduce carbon emissions across its value chain.

On the TSX, Suncor has been among the heavily traded stocks in recent weeks. Dividend investors should find the 4.29% dividend very attractive. Likewise, a repeat of the setback in 2020 is improbable. Management commits to spending economic capital on advancing projects and investments that enhance the value of its existing asset base.

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