Canadian Oil Producers are in the Spotlight

Description

Oil gushing from North America has been both a gift and a curse for producers in the Canadian market. On one hand, the newfound reserves have added immense potential value to asset levels and valuations. Unfortunately, the initial phase of increased production realized much lower selling prices than international oil because infrastructure bottlenecks simply couldn't be avoided.

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Pipeline companies got caught resting on their laurels and projects that typically take several years to complete haven't been able to come to the rescue…yet. In the meantime, railroads have helped distribute Bakken and oil sands crude to refineries along both coasts and the Gulf of Mexico region. As capacity has continued to pick up, so have the prices commanded by Edmonton Light, Western Canadian Select and West Texas Intermediate oil. After being forced into battening down the hatches, Canadian oil producers are likely to impress investors with expectations at current prices.

Barrels of cash

For an idea of what to expect, I turned to **Cenovus Energy** (TSX:CVE, NYSE:CVE) to provide a glimpse of how a tightening spread and growing WTI price would affect financial results. According to management, cash flow in 2013 – taking current hedging into account – would increase by $385 million for every $10 increase in WTI pricing. Couple this with a $145 million improvement for every $5 tightening of the WTI-to-WCS differential. Over the first half of 2013, WTI's average price was $94.19/bbl and the second half has started off averaging $103.47 through July 16.

If this second half average were to hold steady for the remainder of the year, a barrel of WTI oil would carry a 2013 average of $98.83/bbl, leading to an increase in CVE's cash flow of $301 million as the company only expected WTI to average $91/bbl this year.

Additionally, Cenovus also assumed a WTI-WCS spread of $28. Given that this spread currently rests at $22.12 (as of July 22), that would add an additional $171M to 2013 cash flow. All told, if the year finishes out at these levels, Cenovus will have increased cash flow by 11.8 – 15.2% without actually producing any extra oil.

Field of the rising sun

Investors that have stuck with **Suncor** (TSX: SU, NYSE:SU) could be in for an even greater relative surprise given the company's assumption that WTI would average $85/bbl for 2013. That's a whole $6 less per barrel than Cenovus had baked in to estimates. If the company can produce in line with the upper end of guidance of 211 million barrels of oil and WTI averages $98.83 for the year, then the company should entertain the possibility of $2.9 billion in increased 2013 production value.

Falling in line

Sparing you from further calculations, **Canadian Natural Resources** (TSX: CNQ) planned for oil to average $89.78 for the calendar year, so it falls in between its two peers in terms of expectations. While it doesn't anticipate producing quite as many barrels of oil as Suncor, investors in CNR will certainly appreciate a sustained $/bbl at today's levels. Sensing that this could be a prolonged pricing dynamic might have played a part in management's decision to purchase production assets in Alberta from **Barrick Gold** on Tuesday for $217 million as Barrick attempts to narrow its focus on its mining operations.

So, while it has been a long time coming for these Canadian oil producers, it appears that parity with global oil prices might finally have arrived. While it isn't necessarily the best thing for the entire energy sector, or even the average investor, it certainly appears to bode well for those holding the stock of these three companies. Conference calls from these three should be pretty interesting – stay tuned.

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While oil and natural gas get a lot of the press, another area of Canada's energy business that investors need to be mindful of is the country's dominant position in uranium – the key ingredient for nuclear power. That's why The Motley Fool has prepared a Special **FREE** Report that will clue you into the two of the best uranium companies in Canada. It's called "**Fuel Your Portfolio With This Energetic Commodity**," and you can receive a copy at no charge by simply **clicking here**!

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3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CVE (Cenovus Energy Inc.)

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