



Drilling for Value in the Oil Sands: 2 Stocks to Watch

Description

By Robert Baillieul

Warren Buffett has given the Alberta oil sands his seal of approval. The Oracle of Omaha [recently disclosed](#) a \$610 million stake in Canadian energy giant **Suncor** ([TSX:SU](#)). But while it's usually unwise to second-guess this legendary investor, retail shareholders may be able to find a better way to follow Buffett into the oil sands.

Following Buffett into Suncor

As David Berman [pointed out](#) in an excellent *Globe and Mail* column, even if nothing more comes of it, Buffett's investment in Suncor should at least be seen as a nod to the viability of the oil sands — and this is what investors should really be paying attention to. Because, Berman writes, “Next to Mr. Buffett's move on Burlington Northern Santa Fe in 2009, when he added to an earlier position in the railway with a massive \$26.5 billion (U.S.) all-in bet, his foray into Suncor looks tentative at best, which should give would-be copycats pause.”

One of the things that makes Suncor attractive for a Buffett is its liquidity; as Berman [writes](#), “It is relatively easy for investors like Mr. Buffett to move in and out without disrupting the share price.”

That's not usually a problem for us retail investors.

Other opportunities

Pivoting off of Berman's caution about playing “copycat” in Suncor, today I'd like to run through a list of smaller companies that may be off-limits to Buffett due to the size of his pocketbook, but may make great investment candidates for you and me.

Let's look at a few prospects.

Company	Market Cap	EV/EBITDA	Price/Cash Flow	Price/Book
Suncor Energy	\$51.0B	4.9	5.9	1.3
Cenovus Energy	\$22.3B	5.8	6.3	2.2

Canadian Natural Resources	\$32.3B	4.9	5.8	1.4
Talisman Energy	\$11.1B	N/A	5.1	1.2
Imperial Oil	\$36.3B	6.8	9.8	2.1
Husky Energy	\$28.4B	5.0	5.6	2.5

Looking closely at two names

If cheap is what you want, it doesn't get any cheaper than **Talisman Energy** (TSX:TLM). The company has posted more than \$10 billion in operating losses over the past two years as the rise of hydraulic fracturing — a technique used to extract gas trapped in shale rock — caused the price of North American heating fuel to plunge. Talisman is spending more money than it takes in while struggling to maintain production in the North Sea.

Because of these problems, Talisman is one of the cheapest large-cap names in the Canadian oil patch. But its large, undeveloped acreage could make the company an [attractive acquisition target](#). There are several logical suitors, including **ExxonMobil**, **ConocoPhillips**, and **Royal Dutch Shell**, who operate in nearby plays and are desperately trying to grow production.

Canadian Natural Resources (TSX:CNQ) is also inexpensive. It's been one of the industry's worst performers due to the "bitumen bubble," where a shortage of pipeline capacity caused Canadian crude to trade at a discount to other North American benchmarks. Without any refining capacity, Canadian Natural Resources was harder hit than its integrated peers like Suncor and **Cenovus**. The stock has also been under a cloud from an ongoing oil leak at its Primrose facility.

However, with new pipeline capacity possibly coming online over the next few years and Alberta crude fetching higher prices in the marketplace, Canadian Natural Resources will be the biggest beneficiary.

Foolish bottom line

Watching the world's greatest investors is a great way to develop your own investment ideas. Warren Buffett's purchase of Suncor is certainly a vote of confidence in the Alberta oil sands and is certainly a good place to start digging. But us retail investors may be able to find better names that don't meet the Oracle's liquidity criteria.

For more stock ideas, check out The Motley Fool Canada's FREE special report on investing in a niche energy play. [Click here](#) to download your copy of "[Fuel Your Portfolio With This Energetic Commodity](#)."

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Robert Baillieul has no positions in any of the stocks mentioned in this article.

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TICKERS GLOBAL

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2. TSX:SU (Suncor Energy Inc.)

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motley-fool-staff

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