



## Why the Smart Money Is Betting on the Oil Sands

### Description

Any doubts about the energy industry's determination to expand the Alberta oil sands were dashed last week. In spite of transportation constraints, political resistance, and rising costs, several oil majors gave the green light for another round of mega projects. After years of setbacks, the smart money is once again betting big on the oil sands.

#### A new round of megaprojects

Last week saw a flurry of big announcements from Alberta's top oil sand players.

**Suncor Energy** (TSX: SU, NYSE: SU), **Teck Resources**, and France's **Total** gave the [go-ahead on the long delayed Fort Hills mining project](#). The venture is expected to cost \$13.5 billion with planned capacity of 180,000 bpd.

**Royal Dutch Shell** (NYSE: RDS.A) also approved the Carmon Creek steam-driven oil sands project. The development is slated to produce 80,000 bpd though management did not provide a cost estimate for construction.

Meanwhile, **ExxonMobil** ([NYSE: XOM](#)) and its Canadian affiliate **Imperial Oil** ([TSX: IMO](#)) announced that they were on track to complete the Nabiye thermal project and double production at their Kearl mining development. [While output at Kearl was initially delayed](#), production is now running at nearly its 110,000 bpd capacity.

#### Why the optimism?

Despite the challenges, the announcements last week hint that the problems of doing business in the oil sands are starting to abate.

Costs are starting to come in as firm's become more disciplined in their spending. 'One of the great benefits of Fort Hills is we actually believe we a window there where there's still a relatively quiet period.' Suncor's Chief Executive Steve Williams told analysts during a presentation on Thursday, 'We've been able to get some very competitive contracts.'

Suncor laid out its plan to control spending. First, the company is limiting its work force to between

5,000 and 5,500 workers at a time. Second, Suncor plans to build large components off site to be put together when they arrive. Finally, spending will be spread evenly throughout the project's construction rather than lumped together at the back-end. We've see similar measures employed at Imperial to great effect.

And while transport capacity has is a serious issue today, many in the industry expect [transit constraints to be alleviated in the near future](#). Lots of new pipeline and rail capacity are expected to come online within the next few years. This should allow operators to better access the marketplace.

'Let me be really, really clear: We have no market access issue.' Mr. Williams told investors.

Fred Wasden, Shell's manager of in situ development, echoed a similar sentiment on Thursday, "We won't be stranded, and we won't be relying on train cars to get our bitumen out of the area," Without giving additional details, Shell reported that it has entered into secured transportation with pipeline shippers to ensure the output will reach buyers.

### **A key asset**

It's also important to remember just how important the oil sands are to the global majors. Consider a company like Exxon which produced 1.6 billion barrels of oil equivalent last year. In a desperate hunt to replace those reserves, the company and its peers have ventured into unpredictable regions like South America, Russia, and the Middle East.

In contrast, our recent senate spending scandal aside, Canada is a relatively stable place to do business. [As the world's second largest energy reserve](#), the oil sands fill a big hole in the majors' portfolio.

### **Foolish bottom line**

The oil sands are back baby! The smart money is once again being deployed into the region. No doubt investors should follow too.

### **Three top stocks from The Motley Fool**

Looking to expand your portfolio's horizons? The Motley Fool has put together a Special FREE Report featuring "[3 U.S. Stocks Every Canadian Should Own](#)." To get the names and ticker symbols of these three stocks, just [click here](#) to access your free copy!

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

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:XOM (Exxon Mobil Corporation)
3. TSX:IMO (Imperial Oil Limited)
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