



Canada Continues to Fuel Growth for ConocoPhillips and Devon Energy

Description

America's oil boom has our neighbor to the south dreaming of energy independence. Still, the shale fueled boom is just part of the equation. America won't be independent of Middle Eastern oil without the help of Canada. That's why several American oil producers are investing heavily to support Canada's own oil boom.

This past quarter both **ConocoPhillips** ([NYSE: COP](#)) and **Devon Energy** ([NYSE: DVN](#)) had a lot of good things to say about Canada, which is helping to fuel growth for both companies. Over the long-term, oil production out of Canada will be an important contributor to both production growth and margin expansion for both American producers. Because of the country's importance to future returns, investors should pay close attention to what each has to say about the oil flowing out of Canada.

Long-term oil sands growth for ConocoPhillips

This past quarter ConocoPhillips actually saw a slight decline out of its Canadian oil business. Quarterly production decreased by 3,000 barrels of oil equivalent per day, or BOE/d over the same period in 2012 to an average of 274,000 BOE/d. This was primarily due to normal field decline and a major turnaround at Foster Creek, completed in early October.

Going forward, a good portion of ConocoPhillips' growth in Canada will be fueled by its 50% joint venture with **Cenovus Energy** ([TSX: CVE](#)) ([NYSE: CVE](#)) on Foster Creek, Christina Lake and eventually Narrows Lake. In the past quarter the joint venture partners were able to ramp up production at Christina Lake's Phase D as well as start the first production from Phase E. This drove bitumen production to a 16% increase compared with the third quarter of 2012. While production growth will be lumpy as new phases come online, the overall trend is higher oil production in the years ahead.

The oil sands will fuel a significant portion of ConocoPhillips' production growth goal over the next few years. Overall the company expects to grow its oil sands production by about 16% annually as part of its overall goal to grow companywide production by 3%-5% annually through 2017.

The growth from the joint venture projects is also helping turn Cenovus Energy into a [great Canadian oil growth story](#). The foundation provided by these projects has Cenovus predicting production growth

of 11% annually over the next decade. So, while quarterly results might be lumpy for either company, the long-term production growth trend is very solid for both partners.

Devon Energy enjoys higher prices

Devon Energy had a different story to tell about its Canadian operations this past quarter. While ConocoPhillips' quarter was impacted by slight production declines, Devon's quarter was fueled by surging Canadian oil prices. The company noted that it saw a significant price improvement from Western Canadian Select crude oil prices. This pushed the price Devon Energy received for its oil up by 37% compared to just the second quarter. Those price improvements, combined with the strength in Devon's U.S. oil business enabled the company to increase its operating cash flow by 18% on the quarter.

Looking ahead, Devon Energy is in a similar position as ConocoPhillips in that it has a pipeline of projects that should deliver steady future growth from its oil sands operations. The company is about 80% complete with the third phase of its Jackfish thermal oil projects and it expects the third phase to start delivering oil by the third quarter of next year.

Devon is sitting on a vast resource base at its Canadian oil sands operations as it has net risked resource potential of 1.4 billion barrels of oil. Between Jackfish and the future potential on its Pike leasehold, Devon sees 21%-24% compound annual production growth through the end of the decade. Like ConocoPhillips, Devon sees its Canadian operations fueling solid long-term oil production growth.

Investor takeaway

The world can be a pretty volatile place, especially in the oil rich countries of the Middle East and Africa. That's why companies like ConocoPhillips and Devon Energy love investing in Canada. The country's stability as well as its oil riches make it a place that will fuel returns for both companies over the long-term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:COP (ConocoPhillips)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:DVN (Devon Energy Corporation)
4. TSX:CVE (Cenovus Energy Inc.)

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