3 Standout Performers in Canada's Oil Patch

Description

It has been a crazy year for energy stocks. The price of crude has gyrated wildly on the back of unexpected U.S. economic growth and growing geopolitical tensions in the Middle East. Since spiking to a 2013 high in late August, the price of light sweet crude continues to decline, down 15% to just over $93 per barrel. Yet even with this spike in crude prices, Canada's energy stocks have yet to truly reward investors.

I believe that's about to change. Renewed institutional interest, narrowing Canadian and U.S benchmark oil prices, and higher natural gas prices indicate that the sector is set for a rebound. While the high-risk/high-return action may be in speculative micro- and small-cap energy stocks, there are lower-risk opportunities among a few of the larger, higher-quality players in the patch.

Here are three of the better-performing large energy stocks that I believe exhibit further growth potential.

1. Midstream energy assets create considerable opportunity
Transportation and other infrastructure bottlenecks are having a significant impact on Canada's oil patch, even more so with the industry seeking to grow production. Such a dynamic, I believe, creates considerable opportunities for those companies offering midstream (processing, storage, and transportation) services.

One company stepping in to fill the gap is **Keyera** (TSX:KEY), one of Canada's largest independent providers of midstream assets and services. In 2013, its shares have spiked more than 25% on the back of strong financial performance. Third-quarter revenues shot up 17% to $766 million and its bottom line almost tripled to just under $41 million.

Yet growth opportunities abound. It owns 3,400 kilometers of natural gas liquid pipelines, centered on the Edmonton-Fort Saskatchewan energy hub, making it one of the key service providers to Canada's oil and gas industry.

Keyera also owns interests in a range of other critical infrastructure assets and projects under development in Canada's northwest. The company is a vital linkage between Canada's oil and gas producers and key markets. As Canada's oil industry rushes to bring new projects online and boost production, I like how the company is positioned.

2. A focus on oil sands is paying dividends for this oil heavyweight
Back when a number of companies in Canada's oil patch were moving away from oil sands projects in favor of natural gas, one Canadian energy heavyweight did the opposite. **Canadian Natural Resources** (TSX:CNQ, NYSE:CNQ) remained focused on developing long-life oil sands projects, which is now paying dividends for investors.

For the year to date, its share price has jumped 18%, buoyed by record production and a stunning two and half times growth in its bottom line to almost $1.2 billion. The company is rewarding investors — it boosted its quarterly dividend 60%, giving it a 2% dividend yield.

But with Canadian Natural Resources continuing to develop its oil sands assets, it doesn't appear that this spectacular growth will end there. The construction of phase 2/3 of the Horizon project is now 30% complete and the Kirby South SAGD project achieved its first steam injection in September 2013. Both projects are set to boost long-term production growth — and ultimately the company's bottom line.

3. Renewed institutional investor interest recognizes this oil titan's potential
Another major player in Canada's oil patch, **Suncor Energy** (TSX:SU, NYSE:SU), has also performed strongly, with its shares up 14% in 2013. The world's greatest investor, Warren Buffett, has recognized its potential — he took a $500 million position in Suncor back in August.

Since then, Suncor reported solid third-quarter results, including record operating earnings for its oil sands segment (which make up 71% of total production). Revenue grew 8% to $10 billion and its bottom line shot up by just under 10%, to $1.7 billion. But importantly, Suncor's return on capital employed continue to grow, indicating recent cost controls and focused capital expenditure are delivering superior value for investors.

I think this is only the start of Suncor's growth. The company is poised to deliver further value for investors, with a number of discrete low-cost development projects underway. These include increasing production at the Mackay River facility and investing $5.5 billion in developing the Fort Hills project. This project, in which Suncor has a 40% interest, has the potential to be a key driver of growth, with a mine life in excess of 50 years and estimated contingent resources of 3.3 billion barrels of bitumen.

Foolish final thoughts
Even with strong year-to-date performances, I believe all three companies are poised to continue delivering value for investors. Growing production and higher oil prices should translate into growing revenues and profits for Keyera, Canadian Natural Resources, and Suncor. They are seemingly well-positioned to continue rewarding investors.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)

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3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:KEY (Keyera Corp.)
5. TSX:SU (Suncor Energy Inc.)

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Date
2025/08/22
Date Created
2013/11/21
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