



3 Top Picks From Canada's Oil Patch for 2014

Description

As a contrarian investor I like to go against the grain and market consensus. Throughout 2013 I was quite bullish on the prospects of a number of companies operating in Canada's oil patch and in this article I will share my top three picks for 2014.

When it comes to thinking about Canada's oil patch many investors only think of oil sands or shale oil, but there are a diverse range of Canadian oil companies. Many are operating across the full spectrum of conventional and unconventional oil plays both in Canada and internationally.

But of late, there is growing concern that ongoing transportation infrastructure issues coupled with burgeoning U.S. production will threaten the profitability of many operators. Further, the price of West Texas Intermediate – the key benchmark price for Canadian oil – is expected to fall.

But with **Enbridge's** Northern gateway Pipeline [edging closer to approval](#), the key players will be able to access west coast ports and lucrative Asian energy markets, and a softening loonie makes Canadian oil more attractive by shrinking the price differential between Canadian oil and West Texas Intermediate. All of this helps to mitigate the risks associated with declining demand from the U.S. — Canada's key export market.

This integrated energy major is on Buffett's radar

My first pick is Canada's largest integrated oil major **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)), which not only caught my eye but that of Warren Buffett. At the end of June 2013, Buffett's **Berkshire Hathaway** made a foray into Suncor, amassing almost 18 million shares, making it Suncor's sixteenth-largest shareholder.

With an enterprise value of five times EBITDA and eight times oil reserves Suncor also remains attractively priced and appears a better value than many of its peers. Both **Imperial Oil**, which is trading with an enterprise value of 10 times EBITDA and **Cenovus** with an enterprise value of seven times EBITDA appear more expensive.

It seems the market has yet to appreciate the value Suncor offers, especially with management

focused on boosting production, reducing costs and more effectively deploying capital. Suncor also continues to reward investors with a steadily growing dividend.

Well-executed growth plan make this global player attractive

With a diverse portfolio of quality global assets, growing production and dividend yield in excess of 3.6%, **Husky Energy** (TSX:HSE) is hard to pass up. It was over three years ago that Husky implemented a balanced growth strategy aimed at rejuvenating its Canadian heavy oil assets, while building three growth pillars based on its Oil Sands, Atlantic and Asia Pacific assets.

Already this strategy is paying dividends with production continuing to grow. For the third quarter of 2013, it shot up 8% in comparison to the same period in the previous year. Husky also recently provided full-year guidance stating that daily production for 2013 will average 310,000 to 330,000 barrels of oil, which is an increase of over 5% in comparison to 2012.

For 2014, Husky expects production to increase again by around 7%. Another attractive aspect is that a considerable portion of Husky's oil production has its sale price indexed to Brent rather than West Texas Intermediate.

With Brent trading at a premium to West Texas Intermediate, Husky is able to generate more revenue per barrel and generate a higher profit margin per barrel. Increased production and higher realized prices will see Husky continue to grow revenue and its bottom line over the coming year.

Oversold stricken intermediate oil play is attractive at its current valuation

My final pick is **Lightstream Resources** (TSX:LTS), a speculative pick based on whether the company can successfully execute the turnaround strategy announced in November 2013. Despite the company's deep-set problems, including a truckload of debt, it still holds high quality assets in Canada's Bakken and the Cardium.

Furthermore it is very attractively priced when we consider its enterprise-value of a mere four times EBITDA and 16 times reserves. Both of these ratios indicate that it is far cheaper than many of its peers, including **Crescent Point Energy** and **Whitecap Resources**, which both trade with enterprise values of almost nine times EBITDA and 28 times their oil reserves.

When its relatively cheap valuation is considered in conjunction with the quality of its key oil assets and the size of its oil reserves, it appears a compelling value. But the company has a history of mismanagement and it will take some time for the turnaround strategy to gain traction, particularly with a number of asset sales slated in a market saturated with Canadian oil assets.

The reduction in capital expenditure will also see production remain flat over the short to medium-term and while Lightstream transitions to the new structure, I don't expect any significant improvement in its financial performance. Finally, despite slashing its dividend by 50%, it still pays a monthly dividend with an impressive yield of over 8%. This impressive yield will reward investors for their patience as the business turns around.

Foolish bottom line

All three companies offer investors an attractive investment opportunity, paying dividends and offering

the opportunity for considerable capital growth over the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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Date

2025/09/19

Date Created

2014/01/29

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