



3 Oil Industry Predictions for 2014

Description

What an exciting time to be an energy investor!

Thanks to new technologies like horizontal drilling and hydraulic fracturing, the United States is set to overtake Saudi Arabia as the world's largest oil producer by 2015. And in combination with production growth out of the Alberta oil sands, there's a real possibility of North American energy independence by 2020.

But cracks are starting to emerge in the bull thesis. The continent simply isn't equipped with the infrastructure needed to support surging production. And investors who don't understand this key fact could miss a big profit opportunity in 2014 (or be sideswiped by unexpected losses).

So with that theme in mind, how should investors prepare themselves for the New Year? Here're the top three predictions for the oil industry in 2014.

1) Heavy oil producers will beat their lighter counterparts

Oil sand producers should outperform their light oil counterparts in the upcoming year for a couple of reasons.

First, demand for heavy oil is ramping up. **BP's** Whiting, Illinois refinery is due to come fully online later this month. This should add an additional 260,000 barrels per day, or bpd, of throughput capacity – that's a lot of demand!

Second, takeaway capacity out of Alberta is starting to ramp up. Last month, industry regulators recommended the conditional approval of the **Enbridge** (TSX:ENB, NYSE:ENB) Northern Gateway pipeline which would allow oil sands bitumen to reach the Pacific coast by 2018.

Investors are also expecting a decision on **TransCanada's** Keystone XL project by the end of the year. And rail transit has also done a get job at keeping up with oil sands production growth in lieu of new pipeline construction.

In contrast, light oil could fall out of favour in 2014. Rapid improvement in fracking technology has

unlocked billions of barrels of oil across the continent. However, there's a real risk of a light oil glut in the New Year.

At the moment, rapid production growth from the Midwest is flowing to the Gulf coast where it can command a premium international prices. However, once domestic production displaces the last barrel of foreign imports look out below! Once we run out of refining capacity, the price of light sweet crude could significantly underperform other benchmarks.

2) The real money will be made downstream

While most investors focus on sexy oil producers, the real money in 2014 will be made downstream. Chronic infrastructure shortages means companies that collect, store, ship, and refine raw commodities are posed to make a fortune.

Enbridge is a great example of this theme in action. The company owns the largest pipeline network in the country and is responsible for over two thirds of Western Canada's crude oil exports.

Over the next three years Enbridge is set to invest \$36 billion in order to accommodate surging production. More oil flowing through the company's network will provide plenty of room for profit growth and dividend hikes down the road. And while Enbridge is a personal favourite of mine, the whole industry is poised to do well in 2014.

3) New plays will steal attention from the oil sands

While the New Year should be a better year for the oil sands, emerging energy plays could steal the limelight in 2014.

Last year we heard some rumblings out of the Alberta Duvernay. One **Encana** (TSX:ECA, NYSE:ECA) produced a widely publicized 1,400 barrels per day of condensate and four million cubic feet per day of natural gas after 30 days. Results have been so impressive that the company highlighted the field as one of its most import growth opportunities. .

Investors can also expect to hear more from Canada's east coast. Norwegian energy giant **Statoil** made the notable decision last year to focus their Canadian exploration off the coast of Newfoundland. We've already seen some big discoveries coming out of this effort. Expect more news from 'the Rock' in 2014.

Foolish bottom line

The New Year should be another exciting chapter for the energy industry. But the key to investment success in 2014 won't come from the upstream producers but rather the boring back-end of the oil complex. Think pipelines and refineries and not rigs and mines.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
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