Plunging Canadian Oil Prices Poked Holes in Producer Profits

Description

Canada's largest oil company, **Suncor Energy** (TSX:SU)(NYSE:SU), is struggling to grow its profits even as its oil production in Western Canada surges. The company's operating earnings in the fourth quarter fell from $988 million to $973 million despite the fact that it saw record production out of its Canadian oil sands assets as production there soared 18% over the past year. The reason earnings didn't rise was because crude oil prices fell.

Plunging prices aren't good for growing profits
CEO Steve Williams noted in the company's earnings release that Suncor experienced "a challenging western Canadian crude price environment" on the quarter. He went on to point out that the company's price realizations for its oil reflected a wider differential to key benchmark prices. This was due in part to the fact that the company's production outpaced its ability to get better prices for its oil. While that should change in the future, plunging crude prices are currently impacting the company's bottom line.

Unfortunately, Suncor Energy is but one example of energy companies struggling to grow earnings despite surging production out of the oil sands. **Marathon Oil** (NYSE:MRO) also pointed to slumping Canadian oil prices as one of the reasons why its profits didn't grow as fast as its production.

Earnings from Marathon Oil's oil sand mining segment fell from $106 million in the third-quarter to just $42 million this past quarter. This was despite production rising from 49,000 barrels per day to 51,000 barrels per day quarter over quarter. The culprit was a big drop in oil prices as the average price it earned for its synthetic crude oil plunged from $102.64 per barrel in the third quarter to $78.77 per barrel this past quarter.

A warning for peers
Investors in oil sands focused companies like **Cenovus Energy** (TSX:CVE)(NYSE:CVE) and **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) should expect to see similar issues when both companies report fourth-quarter results. Cenovus Energy has already missed expectations for two straight quarters and it wouldn't be a surprise to see the company miss again this quarter. The company continues to search for ways to increase its access to more lucrative markets for its oil. That's why it's joining Suncor in shipping more of its oil by rail. That still might not be enough to help

the company overcome the plunge in oil prices last quarter.

Canadian Natural Resources is also a major oil sands player. Because of this it too will likely face the sting of falling oil prices in the fourth quarter. It also is seeking to use rail to fill in any shortfalls in pipeline takeaway capacity as it waits for new pipelines to be approved and then built. However, rail costs more money and given the rash of trail derailments carrying oil, it could prove to be even more costly in the future, which won't help the price of Canadian crude oil.

Foolish bottom line
Investors could be in for a long period of weak prices in Canada as the industry produces more oil than the current infrastructure can handle. However, these weaknesses could be a great long-term opportunity for investors to add to their position in top oil sands producers as profits could jump once producers can get better market access for the oil processed from western Canada.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MRO (Marathon Oil Corporation)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date
2025/08/27
Date Created
2014/02/10
Author
mdilallo