Is Now the Time to Invest in 3 of the Oil Patch's Biggest Losers?

Description

Despite the price of crude remaining above $100 per barrel, the bourse is littered with oil companies that have seen their share price tumble for the year to date. Three of the biggest losers are oil sands startup **Sunshine Oil Sands** (TSX:SUO), along with intermediate oil producers **Surge Energy** (TSX:SGY) and **Whitecap Resources** (TSX:WCP).

Is now the time to invest or will these companies share prices continue to soften?

This small-cap oil sands producer continues to struggle
Sunshine Oil is a pure-play steam-assisted gravity drainage oil sands miner located in the Athabasca region of Alberta. The company has more than 1 million acres of land and 446 million barrels of oil reserves. But its price has collapsed plummeting 18% for the year to date. Project development delays, funding shortfalls and uncertainty surrounding the demand for crude from the U.S. are making investors jumpy.

The first project the company expects to bring online is the West Ells SAGD project, which is expected to commence production sometime in 2014, with initial production of between 5,000 to 10,000 barrels of crude per day. It is expected that project will be capable of producing over 100,000 barrels of crude per day, but given the delays to the project it maybe some time before that level is reached. Clearly Sunshine is a high risk investment which appears unappealing at this time.

Another Canadian light oil play feeling the squeeze from increased U.S. oil production?
Intermediate oil and gas company Surge Energy has seen its share price continue to soften since the start of the year, to now be down 14%. But much of this can be attributed to profit taking, with its share price having surged 56% over the last year.

Surge Energy, like **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) and Whitecap Resources, is focused on the production of Canadian conventional light oil. But already there are signs the demand for Canadian light oil from its key oil export market, the U.S., is waning. This is because of the U.S. shale oil boom, which is seeing record levels of tight light oil produced.

This is having an impact on the price of Canadian light oil (Edmonton Par), which in January 2014 saw its price differential with West Texas Intermediate widen by around 9% per barrel. But there is something of a rebound in Edmonton Par prices emerging with indications the price differential with WTI continued to close by the end of February 2014.

Surge Energy certainly appears attractively valued with an enterprise-value of 3 times EBITDA and 11 times its oil reserves illustrates. It also appears significantly cheaper than many of its light oil producing peers, including **Penn West Petroleum** (TSX:PWT)(NYSE:PWE), Crescent Point, Whitecap Resources and **Lightstream Resources** (TSX:LTS) as the table shows.
3 of the Worst Performing Canadian Oil Companies YTD Val Chart 100314

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Out of these peers, on the basis of the ratios listed, Surge Energy stands out as being particularly undervalued, indicating that despite the recent pullback in its share price it should continue to appreciate over the long-term.

Can this light oil player continue delivering for investors?
Another of Canada's intermediate light oil producers, Whitecap Resources, is also feeling the pinch from growing U.S. tight oil production. For the year to date its share price has softened 6%, despite the company reporting a 51% increase its oil reserves and record average daily production of 19,769 barrels of oil for 2013.

The company is estimating 2014 average daily production will grow by between 41% and 47% in comparison to 2013. When coupled with crude remaining at above $100 per barrel, its financial performance should improve through the course of 2014.

As the table above indicates, Whitecap Resources appears expensive in comparison to its peers with an EV of 8 times EBITDA and 17 times reserves. But it continues to remain one of the best dividend paying stocks in the oil patch, with a monthly dividend payment yielding 5.5% annually.

The company also increased its monthly dividend by 13% at the end of 2013, the second increase in the last year, which makes it an attractive acquisition for income hungry investors seeking to top up their holdings on price dips.

Foolish bottom line
I am certainly not a fan of investing in speculative startups in the oil industry, particularly when, as in the case of Sunshine Oil, they are experiencing funding issues and project development delays. But intermediate oil producers Surge Energy and Whitecap Resources appear attractive, given the recent softness in their share prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:SGY (Surge Energy Inc.)
2. TSX:VRN (Veren Inc.)
3. TSX:WCP (Whitecap Resources Inc.)

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