3 Key Numbers From Canada's Oil Patch: What Do They Mean for Investors?

Description

Canada's oil patch continues to rocket along with increased global demand for crude driving higher production and growing crude exports. This is despite growing concerns that the explosion in U.S. shale production will see demand for Canadian crude, in particular light crude, fall.

1. Canadian heavy crude prices hit a five-month high
By the end of February 2014, the price of Canadian heavy crude (West Canada Select) hit a five-month high of around $100 per barrel. Over that period the price differential between West Canada Select and West Texas Intermediate had also narrowed considerably. This was on the back of growing demand as stocks of Cushing West Texas Intermediate were drawn down, coupled with increased transportation capacity making it easier for heavy oil producers to access key U.S. refining markets.

At the same time, the price of Canadian light crude (Edmonton Par) also continued to rise, hitting a five-month high of $113 a barrel at the end of February 2014. The price differential between Edmonton Par and West Texas Intermediate also narrowed considerably in late February this year when compared to January 2014. By the end of February 2014, the differential had narrowed to a discount of just over 1%, whereas at the end of January it had widened to almost 14% on the back of waning U.S. demand for light crude.

2. Canadian crude production hits new record
According to the National Energy Board, Canadian crude hit a new production record in December 2013 with an average of 3.8 million barrels of crude produced daily. This was predominantly due to higher bitumen and heavy oil production.

It has also been estimated by the International Energy Administration that Canada's crude production has continued to grow throughout 2014 to a new high in February 2014.

3. Canadian crude exports hit a new record
In December 2013, Canadian crude exports hit a record high of 2.6 million barrels a day, a 44% increase over 2012, according to data provided by the National Energy Board. Of the total crude exported, 97% was destined for the U.S. with the remainder sent to other markets.

The majority of those exports were made up of heavy oil and bitumen, which accounted for 53% of all crude exported, with light and medium crude making up 22% and synthetic crude the remaining 25%.

What does this mean for investors?
Growing crude prices, narrowing price differentials between Canadian crude blends and West Texas Intermediate and higher export volumes are stimulating production growth as well as boosting margins and profitability for Canadian oil producers.

This is a boon for a number of companies operating in the patch, but mostly for the major oil sand miners. This is because of the narrowing price differential between heavy crude and West Texas Intermediate coupled with growing demand from key markets for Canadian heavy crude and bitumen.

Indicating the major oil sand producers such as **Suncor** (TSX:SU)(NYSE:SU), **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) and **Cenovus** (TSX:CVE)(NYSE:CVE) will see strong revenue, cash flow and profitability grow.

However, the outlook for Canadian light crude producers, including Canada's largest light oil producer **Crescent Point Energy** (TSX:CPG)(NYSE:CPG) and troubled intermediate producers **Penn West** (TSX:PWT)(NYSE:PWE) and **Lightstream Resources** (TSX:LTS) is not so optimistic.

Despite the significant price differential between Edmonton Par and West Texas Intermediate continuing to narrow throughout February after hitting a high of 14% in January this year, there are fears it will widen again. This is because growing U.S. light tight crude production from shale oil is set to make it the world's largest crude producer in 2015 and energy self-sufficient by 2035.

This will obviously see waning demand Canadian light crude creating further volatility in its pricing and lead to the price differential widening yet again, negatively impacting the revenues, cash flows and profitability of Canada's light crude producers.

Of the companies operating in the patch, the most attractively priced based on the key valuation ratios of enterprise value as a multiple of EBITDA, oil reserves and barrels of oil produced daily are those with significant oil sands operations as the chart shows.
Canadian Oil Industry Outlook Company Val Ratios 140314

Of the major bitumen and heavy oil producers, it is Suncor and Canadian Natural Resources that stand out as the best value based on the comparison of those ratios.

Foolish bottom line
Canada’s oil boom is set to continue particularly with demand for heavy crude products continuing to drive higher production, prices and margins for Canada’s oil sands miners. Because of the general disdain investors have had toward the industry, many of those companies are still attractively priced.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:VRN (Veren)
5. TSX:CNQ (Canadian Natural Resources Limited)
6. TSX:CVE (Cenovus Energy Inc.)
7. TSX:SU (Suncor Energy Inc.)
8. TSX:VRN (Veren Inc.)

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