3 Overlooked Canadian Energy Giants

Description

Often, it seems like energy companies with exposure to Alberta's oil sands get all the attention.

Once you take a look at the size and the magnitude of oil sands operations, it's hard not to be impressed. Between the oil sands in Alberta and Saskatchewan — which cover an area approximately as large as England — there are an estimated 2.2 trillion barrels of oil. Current technology limits how much of it we can recover, but just 30% of these reserves would be needed to supply North America with all of the energy required for the next century.

That's a lot of oil.

And because of this, companies involved in the oil sands often get most of investors' attention. Investors are wowed by the huge operations, the massive reserves, and even stories about all the wealth flowing in Northern Alberta. But while there are lots of positives in investing in the oil sands, there are also some negatives.

Oil sands product is thick, and more expensive to take out of the ground than more traditional wells. This oil is more expensive to refine as well. And environmentalists will likely continue to be a thorn in the side of these huge operations.

Sometimes, companies that operate under the radar can make for attractive investments. Here are three energy companies without oil sands exposure that are still doing well for investors.

Arc Resources

Arc Resources (TSX: ARX) has significant production in all four of Canada's western provinces, with its operations in B.C. leading the way with about 40% of the company's daily production of 106,000 barrels of oil equivalent (boe). Approximately one third of the company's total production comes from crude oil, the rest of natural gas products.

Arc is strategically moving into trying to be a more oil based company, as about two-thirds of its new wells are drilling for oil. Like many of its competitors, it struggled as the price of natural gas fell.

The company has a market cap of slightly more than $9.5 billion, making it a major player in Canada’s energy space. It also has a solid balance sheet, improving results, and pays a 3.9% dividend. Thanks to an increase in natural gas prices recently, the company can now comfortably afford its dividend based just on its funds from operations.

Pengrowth Energy

The transformation of **Pengrowth Energy** (TSX: PGF)(NYSE: PGH) over the last few years has been one of the biggest success stories to come out of the oil patch.

In 2012, Pengrowth was struggling with production focused on natural gas, a falling stock price, a high debt load, and investor sentiment after it was forced to cut its dividend. The company responded by selling certain natural gas assets, paying down some of the debt, and refocusing on more balanced operations. An increase in natural gas prices didn’t hurt either. The stock is up more than 50% over its 2013 lows.

The company’s current production is 47% natural gas, yet its reserves are only 35% gas. This means plenty of growth going forward for its oil business, which could even signal an increase to its already generous 6.7% yield.

Baytex Energy

Looking for a Canadian producer with exposure to both Texas and North Dakota? **Baytex Energy** (TSX: BTE)(NYSE: BTE) is a good choice.

The company’s production is mostly concentrated close to Peace River in Alberta and Lloydminister in Saskatchewan. Production in North Dakota is just beginning to come on line, and the company is expected to complete its acquisition of 22,000 acres worth of light oil producing property in Texas by the end of the month. It paid $2.6 billion for the assets which currently produce 25,000 boe per day, with significant growth potential.

The company grew revenue at more than 10% during 2013, and has seen both its margins and operating income improve. While the company does have a significant debt load, current cash flows are easily enough to cover the interest on the debt and Baytex’s generous 5.9% dividend.

Investors looking for energy exposure are doing themselves a disservice by focusing on oil sands plays. There are many different energy companies out there with solid operations and steady dividends that have been shut out of the oil sands. That doesn’t make them bad investments. In fact, they’re just the right size to be taken out by some of the largest players.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ARX (ARC Resources Ltd.)
2. TSX:BTE (Baytex Energy Corp.)

Category

1. Investing

Date
2025/08/25
Date Created
2014/05/12
Author
nelsonpsmith