3 Energy Players That Could Benefit From the Conflict in Ukraine

Description

The tense civil conflict in Ukraine between pro-Russian separatists and Ukrainian government forces continues to escalate, and the resulting geopolitical fears are pushing the price of crude higher. The price of West Texas Intermediate has shot up 4%, and Brent 2%, since the conflict began in late January of this year. As a result, WTI is now trading at over $104 per barrel, while Brent is trading at over $110 per barrel.

Obviously, these higher oil prices bode well for the bottom lines of players in the patch, with those companies now able to achieve higher realized prices per barrel and generate a higher operating netback per barrel. But there are a range of other, more significant, benefits for players in the patch starting to emerge.

Why will this conflict benefit the patch?

Western Europe receives around a quarter of its total natural gas needs from Russia, and Putin has demonstrated he is willing to use this as leverage to prevent or minimize sanctions. This has placed the European Union and its member states in the position of needing to look elsewhere for energy imports to remain a credible political force able to influence regional politics.

As a result, they are taking a closer look at Canada because of its copious oil reserves, stable political system, and transparent business environment. This has already seen the EU soften its stance on oil sands, whereas prior to the conflict, it was planning to enact legislation that would have seen Canadian heavy crude made unwelcome in European refineries.

This is a huge boon for oil sands miners, giving them potential access to a new and previously untapped export market and reducing dependence on the U.S., which now receives around 76% of Canada's total petroleum production. Accessing new markets is crucial for operators in the patch, as the U.S. is set to become the world's largest oil producer by 2020 and to be energy self-sufficient by 2035.

Furthermore, if they are able to access European refineries, Canada's oil producers would see their realized oil prices benchmarked to Brent rather than WTI, which trades at a discount to Brent. At this time, the discount is around 6% but is expected to widen as U.S. light crude production grows, flooding the market with WTI-benchmarked crude.

3 companies best positioned to benefit in the short term

The key source of energy needed by Europe at this time is natural gas. **Husky Energy** (TSX: HSE), which has been able to access China's lucrative energy market through its Liwan gas project, mulling the construction of an LNG project on Canada's Atlantic coast in order to meet European demand.

It also already exports a portion of its production from its oil fields in the Atlantic to Europe, allowing it to access lucrative Brent crude pricing. Furthermore, the company is focused on developing oil discoveries it has made in the Atlantic at Bay du Nord and Harpoon. These discoveries are believed to contain 300 million to 600 million barrels of crude, with Husky holding a 35% interest and the remainder held by Norwegian oil company **Statoil** (NYSE: STO).

The development of these discoveries will boost Husky's light crude and natural gas production, which appears to now have a ready-made market with Western Europe seeking to reduce dependence on Russian energy exports.

Canadian pipeline company **Enbridge** (TSX: ENB)(NYSE: ENB) also appears well-positioned to take advantage of Europe's interest in Canadian crude. The company was recently granted a license by the U.S. government authorizing it to export crude produced in Canada from the U.S. This will allow Enbridge to access European markets and refineries, cash in on premium Brent pricing, and further diversify its revenue streams.

Light oil heavyweight **Crescent Point Energy** (TSX: CPG)(NYSE :CPG) is also seeking a U.S. license to export Canadian crude. The ability to access European energy markets and refineries would be a tremendous boost for Crescent Point, because the crude it sells now is benchmarked solely to WTI. Being able to receive Brent pricing would boost Crescent Point's margins and profitability, allowing it to unlock further value for investors.

Clearly, Western Europe is in desperate need of accessing alternative energy sources and reducing its dependence on Russian energy exports if it is to remain capable of influencing regional politics. This is a tremendous boon for Canada.

Already, Husky and Enbridge have taken the lead, with Crescent Point set to take the plunge when its U.S. oil export license is issued. This will allow these companies to access premium Brent pricing immediately, benefiting both their margins and their bottom lines.

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Date
2025/09/10
Date Created
2014/05/28
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