This Market Is Expected to Triple in 2 Years — How Can You Profit?

Description

A new forecast from the Canadian Association of Petroleum Producers now sees oil by rail from western Canada tripling over the next two years. It's a boom that has both explosive risks and substantial profit potential for investors.

While I'm very concerned about those risks given the recent rash of train derailments, it is hard not to be intrigued by the profit potential for oil by rail, as pipeline projects continue to be hindered by environmental and safety concerns. In fact, there's one surprising way to profit that's worth keeping an eye on.

On track for big gains

Last year, Canadian rail companies like **Canadian Pacific Railway** (TSX: CP)(NYSE: CP) and **Canadian National Railway** (TSX: CNR)(NSYE: CNI) shipped an average of 200,000 barrels of oil per day. However, by 2016 it's expected that Canada's railway operators will ship upwards of 700,000 barrels per day. For perspective, 700,000 barrels per day isn't that far off from the 830,000 barrels per day capacity of **TransCanada's** (TSX: TRP)(NYSE: TRP) proposed Keystone XL pipeline.

Of course, one of the reasons so much oil will be heading to the rails over the next two years is because that particular pipeline won't be built in time to transport that oil. The project has faced continued delays in gaining approval in the U.S., and at this point it's anyone's guess whether or not it will ever be approved. However, Keystone XL is no longer the only pipeline project that's in danger.

No end in sight

Kinder Morgan Energy Partners (NYSE: KMP) is now struggling to get its Trans Mountain pipeline expansion project approved. The $5.4 billion project was expected to increase the capacity of Kinder Morgan Energy Partners' Trans Mountain system from 300,000 barrels per day to 890,000 barrels per day. However, that pipeline, which was once viewed as an easy project to get approved, is facing growing opposition that could completely derail the project.

The same can be said for **Enbridge's** (TSX: ENB)(NYSE: ENB) Northern Gateway project. First

Nations leaders in British Columbia are opposed to the project, which would ship 525,000 barrels of oil per day from Alberta to the West Coast. The concern is that the $7 billion project will put undue harm on the environment and increase the risks to those that live along its path and along the coast, as these residents could be harmed if the oil spilled.

The opposition to these three major oil pipeline projects is what's really driving oil to the rails. That, of course, is yielding strong profits for both Canadian Pacific Railway and Canadian National Railway. However, in an interesting recent turn of events, TransCanada is studying how it can profit from the boom in oil by rail if its Keystone XL project is rejected. The company is actually looking at building rail terminals in Alberta and Oklahoma so that some of the profits from the oil-by-rail trade flow its way.

What does this mean for investors?

While TransCanada knows that pipelines are statistically proven to be a safer transportation method for oil, it also knows that without Keystone XL, producers will have no choice but to ship oil by rail. Because of this opportunity, TransCanada could become a surprising way to profit from the oil-by-rail boom in the years to come. If the Keystone XL pipeline is rejected, that doesn't mean investors should reject TransCanada, as it could still profit from moving all that oil.

CATEGORY

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