



How Investors Can Benefit From the Crisis in the Middle East

Description

Ongoing conflict and crisis in the Middle East continues to drive the price of crude higher. It was only at the end of August 2013 when the U.S. government's threats to intervene in Syria after the regime's use of chemical weapons in its ongoing civil war drove crude prices to a seven-month high. Now with the escalation of the conflict in Iraq, and the cities of Mosul and Tikrit falling to Islamic insurgents in recent days, the price of crude continues to surge. Iraq is the second-largest oil producer in OPEC.

What has been the impact on crude prices?

This has seen West Texas Intermediate hit an eight-month high of \$106.94 per barrel and Brent hit \$113.41 per barrel, which continues to drive the prices of oil stocks higher. Some analysts are already issuing revised forecasts for the price of crude of as high as \$122 per barrel, if the conflict continues to escalate and affect Iraq's crude production.

This is despite many analysts taking a subdued view as to the [short-term outlook](#) for oil earlier this year. The revised analyst forecasts, coupled with the [positive longer-term outlook](#) for crude, signal good things for players in the patch. This news will also help to offset widening price differentials for Canadian crude blends to the West Texas Intermediate benchmark caused by the pipeline crunch, which has been preventing players from moving crude to key refinery markets.

It will also generate renewed interest in other oil-producing nations outside of the Middle East as the region continues to be rocked by civil instability, labour crises, and conflict. This is a boon for the patch, and will attract further investment in Canada's energy industry, with the country holding the world's third-largest oil reserves. This has already seen the **S&P/TSX Composite Index** (^OSPTX) yesterday close above its record high, with energy stocks surging on speculation that the escalation of the conflict in Iraq will continue to drive crude prices higher.

The key question for investors is which companies are best positioned to benefit from surging crude prices, and how can they profit from this short-term development.

What are the best choices in the patch for investors?

This current crisis will obviously see global oil investors take refuge in fast-growing oil producers operating in the U.S. and Canada. This includes Canadian operators such as **Crescent Point Energy** (TSX: CPG)(NYSE: CPG), **Whitecap Resources** (TSX: WCP), and **Baytex Energy** (TSX: BTE)(NYSE: BTE), which I believe are the best three choices. This is because they are all well positioned to attract premium prices for their crude while significantly boosting crude liquids production and controlling costs.

They also have a significant majority of their petroleum production weighted to higher-margin oil and natural gas liquids, allowing them to take full advantage of higher crude prices. In the case of Crescent Point, 91% of its Q1 2014 production was weighted to oil and natural gas liquids, whereas for Whitecap it was 71% and for Baytex it was 89%. All three have also recently completed significant acquisitions, boosting their oil reserves and production. This has allowed them to issue revised production guidances forecasting higher levels of production, funds flow from operations, and profitability .

The conflicts in Iraq and Syria, coupled with ongoing civil unrest and labour disputes in other parts of the Middle East, can only drive crude prices higher. This will result in a significant increase in interest in the patch from foreign investors seeking to cash in on higher crude prices by investing in a relatively stable jurisdiction.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:VRN (Veren)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:VRN (Veren Inc.)
4. TSX:WCP (Whitecap Resources Inc.)

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