Are Canadian Oil Producers Still a Buy?

Description

Canada's oil production companies have had a nice run this year and investors are wondering if it's too late to buy.

For example, **Suncor Energy** (TSX: SU)(NYSE: SU) is up 35% and **Canadian Natural Resources** (TSX: CNQ)(NYSE: CNQ) is up 44% in the past 12 months.

Let's take a look at the reasons for the rise and see if Canada's oil stocks are still attractive.

Low Canadian dollar

Oil is sold in U.S. dollars, so a lower Canadian dollar has meant Canadian oil companies have been enjoying a nice bump in profits due to the favourable exchange rate.

After trading around par with the U.S. dollar for most of 2012 and the first half of 2013, the Canadian dollar dropped significantly. At one point in March 2014, an American dollar bought $1.12 Canadian. Recent strength in the Canadian dollar brought the exchange rate back below $1.07 but analysts are expecting the move to be short-lived.

International political instability

The price of oil has been driven higher over the past six months by political conflict. The Russian annexation of Crimea kept oil traders on their toes for the first part of the year, and now Iraq is teetering on the edge of civil war.

Recent calm on the media front regarding Iraq has taken some of the fear premium out of the price, but West Texas Intermediate (WTI) oil still trades above $100 per barrel.

Increasing violence in Gaza and a potential power grab in Afghanistan combined with any escalation in Iraq could send the oil price sharply higher.

Oil by rail

As the Keystone XL pipeline decision continues to drag along, Canadian oil producers are using trains to transport massive amounts of oil to the U.S. This allows them to both sell more oil and get better prices for it.

Despite the approval of the Northern Gateway pipeline and impending rail-transport safety restrictions, the crude-by-rail boom is here to stay. In fact, oil-by-rail shipments are set to triple in the next two years.

U.S. investment

In late 2013, Warren Buffett's **Berkshire Hathaway** disclosed a sizable position in Suncor Energy. The news stirred up renewed American interest in Canada's big oil producers.

Sentiment is a powerful thing in the equity markets. If the Canadian oil-patch trade is "on" again, the huge inflows of U.S. cash will provide added support to stock prices.

Investor-friendly fundamentals

Both Suncor and Canadian Natural Resources continue to increase dividends and buy back shares. Earnings forecasts and free cash flow are moving higher and the price-to-earnings ratios are reasonable even after the big jump in the stock prices.

What should Canadian investors do?

The investment outlook for the oil producers is still positive and the market should continue to reward good stewardship even as stocks prices reach new highs.

Given the extended rise of the broader markets, a pullback is likely in the coming months. This will provide an opportunity to add to your oil-producer holdings.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date
2025/09/11
Date Created
2014/07/15

Author
aswalker