Attention Investors: Read This Before Buying Any Oil Sands Stocks

Description

There's a reason why many international investors equate Canada with the oil sands. The region in northern Alberta is perhaps Canada's greatest natural resource, and is awash in oil.

Sure, costs are rising, but that's a problem for the entire sector, not just oil sands producers. Technology has greatly increased the yield that producers are getting, while making sure the environmental impact is minimal. And at last estimates, there's still 100 years worth of oil sitting in the ground, just waiting for somebody to come grab it.

While exports to the U.S. are looking like less of a long-term option (because of production increases in both North Dakota and Texas), there's still plenty of opportunity for producers like **Suncor Energy Inc**. (TSX: SU)(NYSE: SU), **Canadian Oil Sands Ltd** (TSX: COS), and **Imperial Oil Limited** (TSX: IMO)(NYSE: IMO) to export surplus product to Asia, using the Northern Gateway pipeline planned by **Enbridge Inc.** (TSX: ENB)(NYSE: ENB), which is scheduled to be completed in 2018.

There's just one problem. Enbridge is already behind schedule.

The upcoming crisis

Before the federal government conditionally approved Northern Gateway, the opposition seemingly came from all sides. Native Canadians were angry the pipeline would be going through land traditionally used for hunting and fishing. Environmentalists were concerned about potential spills. Even the B.C. provincial government was opposed, although its objection had more to do with inadequate royalty rates.

It's important that investors pay attention to this infighting for one big reason. I'm not not suggesting for a minute that the pipeline doesn't get built, but I'd be willing to wager that there will be some pretty significant delays. Enbridge has already come out and said it's running behind schedule, and construction hasn't even started yet.

Rival **Kinder Morgan Energy Partners L.P.** (NYSE: KMP) is also planning a huge expansion of its Trans Mountain system between Edmonton and Vancouver, which is also scheduled to open sometime in 2018. It too is running into delays.

There's currently a giant pipeline glut in the oil sands. As pipelines scramble to construct new routes to get the crude to awaiting refineries, producers have had to use alternate methods for transport. Crude by rail is the obvious choice, but it's more expensive and less safe than transporting via pipeline. And crude by rail can barely keep up to today's demand. What happens when the oil sands expand?

Growth coming

Many large oil sands players are planning big new projects.

Cenovus Energy Inc. (TSX: CVE)(NYSE: CVE) is planning on increasing production by more than 400,000 barrels per day from just its Christina Lake and Foster Creek projects. Imperial Oil plans to expand its Kearl project by 200,000 barrels per day by 2020. Suncor has plans to bring another 300,000 barrels per day online by 2019.

And that's just the tip of the iceberg. Production in the region is scheduled to more than double in the next decade, as both large and small scale operators make sure they've joined the trend.

But what happens if pipelines don't catch up? The bottleneck we're seeing today is going to be nothing compared to what's coming. And if crude by rail can barely keep up now, what chance does it have when production has doubled?

This is the biggest risk for oil sands producers. They need pipeline infrastructure to catch up to their growth, and so far all the major projects are plagued by delays. It's not a problem that's going to come to a head next week, but energy investors need to at least keep an eye on it. Pipelines are the key to the whole area's growth. Without them, producers could have a big problem.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:ENB (Enbridge Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSEMKT:IMO (Imperial Oil Limited)
5. TSX:CVE (Cenovus Energy Inc.)
6. TSX:ENB (Enbridge Inc.)
7. TSX:IMO (Imperial Oil Limited)
8. TSX:SU (Suncor Energy Inc.)

Category

1. Investing

Date
2025/08/22
Date Created
2014/09/05
Author
nelsonpsmith