



## Patience for Pipelines Running Out? Explore These Key Players in Oil by Rail

### Description

Output in the Albertan oil sands is at an all-time high as existing pipelines are overbooked and new pipelines remain stuck in “development hell.” So what are investors supposed to do as no resolution is in sight for a myriad of proposed pipelines?

Energy companies that need to ship their goods have become desperate in recent years to get the crude out of Alberta and off to market. The “Band-Aid” solution has been to use rail companies to move the crude. So how can investors capitalize on this growing trend in oil by rail? Who are the top movers and shippers that investors should consider, and how far can this trend go here in Canada?

### Timing is everything

Right now is a key time of year for investors to consider such an investment strategy as summer driving has been replaced by school buses. Orange traffic cones are being replaced by orange leaves on the ground, meaning a lot less (oil byproduct reliant) asphalt is hitting the streets. And lastly, this is the time of year that refineries begin their annual maintenance shutdowns. All in all, a trifecta of seasonal factors will push down the price of crude, bringing with it many energy stocks and making it prime time to invest.

### The second great oil boom

Back in 2013, **Canadian National Railway** ([TSX: CNR](#))([NYSE: CNI](#)) only shipped 75,000 tankers of crude (or 53 million barrels) through its network. Fast-forward and CN Rail is projecting to move at least 200,000 carloads by 2015. This is exponential growth and it could only be the tip of the iceberg.

CN Rail at the “recommendation” of Nexen Inc. is floating the idea of running oil-by-rail services from Alberta oil fields to Prince Rupert, B.C. At a rate of up to seven trains per day, this would match the capacity of the proposed Northern Gateway pipeline.

The National Energy Board estimates that 163,000 boe/day was exported by Canada during the second quarter by rail. Some insiders see the oil-by-rail capacity in western Canada growing to 500,000 boe per day by the end of this year and could rise to 1.5 million boe/day by 2015.

### The top 2 players and the up-and-comer

So far, the bulk of oil by rail is taking place in the Bakken resource play in Saskatchewan and Manitoba at a rate of 250,000 boe/day. This is mainly due to a lack of options to move product. **Crescent Point Energy Corp.** (TSX: CPG)(NYSE: CPG), for example, has increased its own in-house oil-by-rail capacities to 72,000 boe/day.

On the Albertan front, **Gibson Energy Inc.** ([TSX: GEI](#)) is laying the ground work to greatly expand its oil-by-rail capabilities with a proposed capacity of 140,000 boe/day, which could be further upgraded to 280,000 boe/day. This would make it one of the top Canadian companies with oil-by-rail terminals in Alberta and would bring it close to **Kinder Morgan's** capacity of 140,000, which is expandable to 370,000 boe/day.

Last to the race is **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)), which appears ready to enact its "rail bridge" contingency to keep oil moving. As the Keystone XL Pipeline proposal continues its political and judicial juggling act, investing some capital in oil-by-rail terminals is a move that will keep its oil flowing from Canada to refineries to the United States while also underpinning the stock's current upswing.

An oil-by-rail facility costs in the neighbourhood of \$30 million to \$50 million to go from concept to operational, but could prove invaluable as overbooked pipeline operators will continue to raise their rates. Meaning the gap between oil by rail at \$15.00 to \$20.00 per barrel will look less unreasonable compared to the \$7.00 to \$11.00 per barrel on pipelines. At the end of the day, the oil must flow, and investors can take advantage of this boom through both CN Rail and the energy companies flooding the terminals.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:TRP (Tc Energy)
3. NYSE:VRN (Veren)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:GEI (Gibson Energy Inc.)
6. TSX:TRP (TC Energy Corporation)
7. TSX:VRN (Veren Inc.)

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cameronconway

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