



## Stop Worrying About Oil Prices; Just Buy Canadian Oil Sands Ltd. and Suncor Energy Inc.

### Description

When will the price of oil finally stop going down?

That's a question many energy investors are asking themselves these days, with seemingly few answers. The price of crude just stubbornly keeps heading lower. Ever since reaching a high of nearly \$110 per barrel in June, the price of North American light crude has been on a free fall since, settling in below \$90 per barrel. The commodity slipped again during trading on Wednesday, falling to \$87.31, which is the lowest price in more than 2 years.

Canadian energy producers have been amongst the worst performers on the TSX Composite during that time, with many falling 30% or more. **Canadian Oil Sands Ltd.** (TSX: COS) shares are down more than 22% from their high reached in June, while **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) has fared a little better, falling just 18%.

Many investors are looking at this as a buying opportunity to load up on their favorite energy stocks. It makes sense, since oil is cyclical and tends to swing too far in both directions. Except they're doing one thing wrong.

They're waiting to time the bottom in the price of oil. This is a huge mistake.

### Stop trying to time it

There's nothing wrong with trying to time the market, at least in small doses.

Whenever investors sit tight and wait for a pullback to add to their favorite stocks, that's a form of market timing. Same with waiting a few days until a stock pays out its quarterly dividend before selling or buying right before a dividend, making you eligible to get it after owning shares for just a few days.

These forms of market timing are prudent, and can give investors a little bit of an edge compared to the market. But when they look at more complex strategies, investors tend to shoot themselves in the foot.

That's what many investors who are trying to time the bottom in the oil market are doing. Instead of buying when oil is trading at a 20% discount, these investors are being too patient, waiting for a 25% discount instead of just going ahead and buying at current prices.

## Canadian Oil Sands

There are plenty of beaten-up oil stocks out there. Why should you buy these two?

Canadian Oil Sands is on the verge of completing a couple of major capex projects to its upgrader system, which allows it to upgrade bitumen to light oil. These projects were a huge drain on the company's cash flow, but it looks like they'll be completed without taking on any additional debt.

This is good news for the company, allowing it to maintain its conservative balance sheet. Since the company sits on just \$1.6 billion worth of debt (compared to nearly \$10 billion in assets), this gives it the flexibility to do things like pay for major projects using just cash on hand.

Capex expenses are expected to fall dramatically in 2015, meaning there should be plenty of free cash flow available to pay the generous dividend, which currently yields 7.3%.

## Suncor

Suncor Energy is the largest producer in Canada, with approximately 70% of its 500,000 barrels of oil per day worth of production coming from the oil sands.

But the company is much more than just an oil sands producer. It owns significant downstream assets, including refineries spread across the country, a large lubricants business, and more than 1,500 Petro-Canada service stations. These other assets help protect it from a prolonged slump in oil prices.

Suncor's dividend is pretty small compared to Canadian Oil Sands, but it still pays out nearly 3% annually, which is better than a 10-year government of Canada bond. It also boasts some pretty terrific dividend growth, boosting its quarterly payout from \$0.10 per share at the beginning of 2010 to \$0.28 per share now. And since it still has a low payout ratio, the dividend can continue to creep higher even if energy prices remain weak.

Oh, and Warren Buffett owns \$700 million worth. I wouldn't bet against the most successful investor of all time.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

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