Suncor Energy Inc. and Imperial Oil Limited: Time to Pick Up Some Bargain Energy Stocks

Description

Since June, oil prices have seemingly moved in only one direction: straight down. Robust supply in the United States, weak growth in Europe and China, and a reluctance to cut production in Saudi Arabia have been the main culprits. And this has dragged down stock prices in Canada's energy sector.

But is the story really that bad? Jeffrey Currie at Goldman Sachs said that the price decline has been driven by "expected" events rather than "currently observable shifts." In other words, fear among speculators has dragged oil prices down.

And there are some saving graces for Canada's energy companies too. The low oil prices have also dragged down the Canadian dollar, making our exports more competitive in the U.S. Low oil prices also mean lower royalty payments. Transportation bottlenecks are continuing to ease, so our energy producers can get a better price for their product.

The news could get even better. Many of the American shale oil drillers are not especially profitable, and are building up big debt loads. If they fail, then the resulting supply cut means even higher prices for our oil.

So with stock prices so beaten up, two opportunities are worth mentioning in particular.

Time to load up on Canada's largest energy company

Suncor Energy Inc. (TSX: SU)(NYSE: SU) is Canada's largest energy company, and also one of the oil sands pioneers. More recently, its stock price has fallen sharply, down by 20% since June. Obviously the decline in oil prices have caused this. But lost among the headlines are some notable improvements the company is making.

Most importantly, Suncor is much more disciplined than it used to be. Some high cost projects, such as the Voyageur upgrader, have been scrapped. And more recently, the company announced a cut of $1 billion to its 2014 capital program. Even more significantly, Suncor thinks it can improve production by 100,000 barrels per day just from incremental improvements to its existing operations.

And unlike the shale oil developers in the United States, Suncor has proven it can endure in low oil price environments (such as the late 1990s). You can feel safe owning the company's shares.

Another integrated company on the rise

Like Suncor, **Imperial Oil Limited** (TSX: IMO)(NYSEMKT: IMO) has seen its share price fall (although not quite as much, falling nearly 10% since early September). Also like Suncor, Imperial Oil has some very positive attributes.

One is the company's growth prospects – management hopes to double daily production by 2020. Of particular note is the Kearl project, which has a lifespan of 40 years, without the significant decline rates you see in shale projects. Kearl is also much more environmentally friendly than many of its comparable projects.

Another is the strong management team, which has not been hesitant to return money to shareholders. Between 2003 and 2012, Imperial has returned $14 billion to shareholders through dividends and buybacks, a staggering number for a company this size.

There are other options in the energy sector, also trading at bargain prices. One of them is The Motley Fool Canada's top stock pick for 2014. You can read all about it in the free report below.

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