It's Time to Bet on Keystone's Approval with Suncor Energy Inc. and Canadian Natural Resources Ltd.

Description

According to a report from *Bloomberg News*, Democrats in the United States Senate are considering legislation that would force the State Department to approve **TransCanada Corporation's** (TSX: TRP)(NYSE: TRP) Keystone XL pipeline.

The legislation would be intended to help Senator Mary Landrieu, who is running for re-election in the state of Louisiana. Ideally the bill would help highlight her support for the pipeline, which is popular in the state. Similar legislation has received unanimous support from Republicans.

So this could be a path for Keystone's approval. And as mentioned previously, if you are looking to make that bet, you don't want to buy TransCanada (especially since the project's estimated cost has skyrocketed). Instead, you're better off buying one of Canada's energy producers. Below are three options.

1. Suncor

Suncor Energy Inc. (TSX: SU)(NYSE: SU) is Canada's largest energy producer, and would also be one of the biggest beneficiaries of Keystone's approval.

Through the first nine months of 2014, the oil sands accounted for roughly 80% of Suncor's total production, meaning the company must deal with stubbornly high discounts for its product. So far this year, that differential has averaged US$21.10.

And Suncor is not standing still. For instance the Fort Hills project is expected to add 73,000 barrels per day (b/d) of bitumen by 2017 – this would increase oil sands production by nearly 20%. So the Keystone pipeline would help get the best price possible for that added production.

In fact, Suncor has already reserved capacity on the Keystone pipeline. And if that pipeline is never built, the company will likely have to resort to rail, which is more expensive. So Keystone's approval should be very good for Suncor, as well as its share price.

2. Canadian Natural Resources

While Suncor would certainly be helped by Keystone's approval, **Canadian Natural Resources Ltd.** (TSX: CNQ)(NYSE: CNQ) may benefit even more. This is because CNRL has no downstream (i.e. gas stations) segment; practically all of its earnings come from oil production in Alberta.

CNRL has booked about 120,000 b/d of capacity on Keystone, nearly a quarter of its current oil production. So it is certainly counting on this project getting completed.

There are plenty of other reasons to buy CNRL. The company has earned a reputation for being a best-in-class operator in the energy patch. It has managed to keep costs under control, and money is spent wisely too. Its stock price has returned nearly 17% per year over the past 15 years.

3. Smaller producers

If you really want to make a bet on Keystone, then you can buy the shares of a smaller producer, such as **MEG Energy Corp.** (TSX: MEG) or **BlackPearl Resources Inc.** (TSX: PXX), both of which I own. These companies are both expected to grow production very quickly, and are even more of a pure-play than CNRL. So if Keystone is approved, their shares may skyrocket. But if Keystone is rejected, there could be a lot of pain. You have been warned.

CATEGORY

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

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