3 Oversold Oil Stocks I'd Buy With An Extra $5,000

Description

OPEC has decided to maintain production in an effort to put the squeeze on high-cost shale plays in North America. The move is driving WTI prices below $70 per barrel and investors are fleeing the oil sector in waves.

For value investors, this is an exciting time. If you have some money sitting on the sidelines and you believe in the long-term oil story, this could be a great opportunity to take a position in the following three stocks.

Here are the reasons why I would buy **Canadian Natural Resources Ltd.** (TSX: CNQ)(NYSE: CNQ), **Suncor Energy Inc.** (TSX: SU)(NYSE: SU), and **Cenovus Energy Inc.** (TSX: CVE)(NYSE: CVE) right now.

Canadian Natural Resources Ltd.

Canadian Natural is one of Canada's most diversified energy producers with assets spanning conventional oil, oil sands, natural gas, and natural gas liquids. In fact, the company is one of the largest natural gas producers in western Canada and owns a significant portfolio of properties in the liquids-rich region of northwestern Alberta and northeastern British Columbia.

Production is expected to grow by 11% in 2015. The increased output combined with a falling Canadian dollar will help offset lower revenue per barrel of oil. Even in a low-price environment, Canadian Natural says its flagship Horizon oil sands project is still capable of delivering solid free cash flow for decades if WTI oil stays at $70 per barrel.

Canadian Natural Resources prefers to own 100% of its assets. This gives the company the flexibility to quickly shift capital to its best-performing properties when volatility hits the energy markets.

The $0.90 per share dividend is not at risk, given the low payout ratio of 26% and the strong share buyback program.

Suncor Energy Inc.

Suncor is Canada's largest integrated oil company with strong assets that deliver revenue all along the value chain. The company's oil sands division is able to withstand low oil prices because it is very efficient. In the Q3 2014 earnings statement, Suncor reported an operating cost per barrel of $31.10.

Suncor has four large refining facilities that produce gasoline, diesel fuel, asphalt, and lubricants that are sold in North America and around the world. Three of the refineries are undergoing maintenance work that will be completed by the end of 2014, and investors should see the benefits from near-capacity output at the plants in 2015.

Suncor also operates 1,500 Petro-Canada retail outlets. Profits from the refining and retail divisions help offset lower earnings from the upstream operations when oil prices fall.

Suncor pays a dividend of $1.12 per share that yields about 3%. The payout ratio is 45%.

Cenovus Energy Inc.

Cenovus operates two top-rated oil sands facilities with its 50% joint-venture partner ConocoPhillips.

The Christina Lake project produced 30% more oil in Q3 2014 compared to the same period the year before. The average daily production was 68,000 barrels. Once the site reaches designed production capacity, Christina Lake should crank out 300,000 barrels per day.

The Foster Creek project averaged 57,000 barrels per day in the third quarter, a year-over-year production increase of 15%. Total production at the facility is expected to hit 295,000 barrels per day by 2019.

Cenovus also owns a large refining division that has the capacity to process up to 430,000 barrels per day of crude feedstock.

Cenovus pays a dividend of $1.06 per share that yields about 4.1%. The payout ratio is 68%.

The bottom line

Oil prices might continue to fall as OPEC plays chicken with North American shale producers, but these three companies should survive the downturn and prosper once the dust finally settles on the oil rout.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:SU (Suncor Energy Inc.)

4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)
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