



Why You Should Stick With Suncor Energy Inc. and Canadian Natural Resources Ltd. in Canada's Energy Patch

Description

Even as oil prices collapse, there are some traces of good news in Canada's energy patch.

For one, American oil producers are cutting back substantially. The number of new drilling licenses in the United States is down 40%. Many of the drillers have outstretched balance sheets, and they cannot drill like they used to. Other high-cost supply, such as offshore regions in Mexico and Brazil (as well as Canada's oil sands), is also expected to slow down. Meanwhile, U.S. gasoline demand is climbing very quickly, well above historical averages.

That being said, it will take some time for the market to sort itself out. To illustrate, U.S. production is still expected to rise in each of the next couple of years. And on Friday, the International Energy Agency trimmed its 2015 world demand forecast by 230,000 barrels per day.

So with that in mind, there may be some good investment opportunities in Canada's energy sector. But you want to stick with companies that can make it through at least the next couple of years. Below we discuss two such companies.

1. Canadian Natural Resources

Canadian Natural Resources Ltd. ([TSX: CNQ](#))([NYSE: CNQ](#)) may just be the best-in-class company in Canada's energy patch. Over the past 15 years, its shares have returned nearly 16% per year. Over this time, the industry has faced challenges such as the 2008/2009 economic crisis, rising costs, and the current price collapse. But CNRL has persevered – even thrived – through it all. The company has even had 14 straight years of dividend increases.

Part of Canadian Natural's success comes from ferocious cost control, which helps the company survive when other producers are struggling. The company is then able to pick up assets very cheaply as other producers cut back. A perfect example occurred earlier this year, when it paid \$3.1 billion to **Devon Energy Corp.** for a collection of natural gas assets – many analysts thought this price was an absolute bargain.

So in this era, with oil prices so low, Canadian Natural is perfectly positioned to buy assets for pennies on the dollar. Over the long run, this could result in handsome rewards for investors.

2. Suncor

While **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)) hasn't performed as well as Canadian Natural over the past 15 years, it is still well-positioned to survive in this environment.

One reason is that Suncor makes just as much money from downstream operations (such as gas stations) as it does from the oil sands. So its revenue sources are more diversified than Suncor's.

Secondly, Suncor has a fantastic balance sheet, with net debt of less than \$7 billion. This is a very small number for a \$47 billion company. Other producers in Canada are in much worse financial shape. As a result, Suncor may act as a consolidator just like Canadian Natural. And once the oil market does stabilize, Suncor's shareholders could easily emerge as big winners.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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