Oil Price Plunge Could Cause $60 Billion in Investments to Be Delayed

Description

According to a report in the *Financial Post,* nearly $60 billion in Canadian oil projects are at risk of being delayed due to the unexpected plunge in oil prices. Among the projects with the greatest risk of delay are the expansion of **Husky Energy Inc.'s** (TSX:HSE) Sunrise projects as well as Phase H of Christina Lake and Phase A of Narrows Lake, both of which are part of a joint venture with **ConocoPhillips** (NYSE:COP) and **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE). These delays, however, are just part of the story as the Canadian energy industry digs in for what could be a really tough stretch if oil prices don't begin to improve.

Timelines stretched

Over the next few years a number of oil sands projects are expected to come online and begin producing oil. These multibillion-dollar projects were sanctioned at a time when oil prices were high and the view was the oil prices would stay that way for as far as the eye could see. However, given the dramatic drop in oil prices that view has been radically altered. Oil companies are now retrenching by reducing expenses. These cuts could result in $12 billion worth of oil sands investments being deferred this year, with another $20 billion being deferred in 2016 followed by $27 billion in deferrals in 2017 if oil prices stay at current levels.

These deferrals could impact the startup dates of future projects. For example, **Suncor Energy Inc** (TSX:SU)(NYSE:SU), **Teck Resources Ltd** (TSX:TCK.B)(NYSE:TCK) and another partner could slow down construction at the $13.5 billion Fort Hills oil sands mine. The project, which is currently expected to come online in the fourth quarter of 2017, could see that start date pushed back as the partners wait for the oil market to settle down before pouring billions into the project.

Withholding funding

In addition to stretching timelines on already sanctioned projects, the industry is also likely to hold off on the final investment decisions on projects that have yet to begin construction. Up to 16 projects are currently under consideration that could be delayed. For example, future expansion phases of Christina Lake as well as the startup of Narrows Lake could be delayed indefinitely if current oil prices persist.

Meanwhile, Husky Energy could delay the expansion of Sunrise, much the same way as it delayed its decision on its $2.8 billion White Rose offshore project in the Atlantic.

Meanwhile, other projects that had already been delayed due to high costs are likely to be pushed back even further. Suncor Energy's $11 Joslyn mine was already pushed back last year, but the company and its partners are thinking about supersizing the project in an effort to optimize development to achieve higher economics. However, the enlarged project, which would have been 60% bigger than the initial plan, isn't likely to be sanctioned now that oil prices have been decimated.

Investor takeaway

Oil companies really don't have much choice but to delay these projects until there is more clarity in the oil market. These delays will ensure that the companies don't dig themselves in too big of a hole by piling on a lot of debt as cash flows begin to weaken. That being said, these delays will result in slower future growth as these are long lead time projects that can't easily be switched back on so investors are now likely to face years of slower than expected growth even if oil prices do eventually rebound.

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Author
mdilallo