How to Profit From a Potential Rebound in Oil Prices

Description

The CFO of **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ), Corey Bieber, recently spoke at an industry conference and gave his thoughts on the direction of oil prices. According to the *Wall Street Journal* he said, “Are we going back to $100 oil? Not currently [in] our view. Are we going back to $60-$65? That has potential.” While his view isn’t as bullish as comments made by **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) at that same conference, a $20 per barrel rebound in oil prices would send oil stocks surging. Here are some ways to profit from a short-term rally in the price of oil.

Solid ground

Despite the rapid plunge in oil prices over the past six months, the stock price of both Suncor Energy and Canadian Natural Resources are virtually unchanged over the past year as we see in the following chart.

SU and CNQ
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That said, both stocks are well off of their 52-week highs, which is also quite noticeable on that chart. Because of this both stocks do have some upside if oil prices were to begin to rally. However, that upside is rather limited by that fact that neither stock really sold off over the past year.

So, for investors looking for a less risky way to profit from an oil price rally, either company would be a solid bet. Both are prudently managing through the current downturn by keeping expenses in check even as they focus on future growth. The ability to focus on the long term is due in large part to the fact that both have a very solid balance sheet, which also allows the pair to continue to pay a decent dividend.

A little bit more fuel for the fire

On the other hand, investors willing to take on a bit more risk for a higher reward could consider **Cenovus Energy Inc.**, **Husky Energy Inc.**, or **Crescent Point Energy Corp**. As we see in this next chart, all three have been much harder hit by the slide in oil prices.

hse cve cpg

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Because these stocks have fallen further they have the potential for a bigger short-term bounce should oil prices rally. That said, there's a bit more risk involved as these companies are smaller than Suncor Energy and Canadian Natural Resources. In fact, Husky Energy, which is the largest of the three, is still half the size of Suncor Energy while Crescent Point Energy is about a quarter of Suncor Energy's size.

Size aside, these oil stocks are all just as confident as their larger peers that they can weather the current storm in the oil market. This is why none of them cut their dividends even though all reduced capex, while still maintaining production growth. Husky Energy, for example, cut its capex plan by a third over last year's level as it braces for what could be a rough 2015, but still projects modest production growth. Meanwhile, Crescent Point Energy is cutting its spending this year by 28%, while projecting 9% production growth, and Cenovus Energy is slicing its spending by more than 15%, but still growing production by single digits. This production growth chould pay off in the second half of the year if oil prices do rebound.

Investor takeaway

Investors looking to profit from a rebound in oil prices later this year have a lot of options. Canadian stalwarts like Canadian Natural Resources or Suncor Energy offer a lower risk option for investors. Meanwhile smaller oil companies like Husky Energy, Cenovus Energy or Crescent Point Energy are a little riskier, but have a bigger bounce back potential as all there have been harder hit by the downturn.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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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