

# 5 Reasons Why the Rout in Crude Is a Once in a Lifetime Investment Opportunity

## Description

Analysts continue to take a negative view of the outlook for Canada's energy patch and oil stocks. This comes on the back of oil falling to its lowest point in five years and claims that it could fall to as low as US\$20 per barrel, which would trigger a further sell-off of oil stocks.

I certainly agree that the short-term outlook for oil stocks is less than optimistic, but I believe the recent sharp sell-off of oil stocks represents a once-in-a-lifetime buying opportunity for investors. Why?

### 1. Professional investors are taking the same view

The chief investment officer of asset manager **Manulife Financial Corp.** ([TSX:MFC](#))([NYSE:MFC](#)) recently stated: "We view this period of volatility and depressed asset valuation as an opportune time to acquire additional oil and gas properties".

### 2. Rig counts are falling sharply

According to consultancy Baker Hughes, the U.S. rig count is now at its lowest level since February 2010 and continues to fall as shale oil producers continue to shut down noncommercial oil production.

### 3. Middle East militancy poses threat to oil supplies

The International Energy Agency (IEA) released a report stating that the rise of Islamic militancy in the Middle East and growing regional instability are threatening oil supplies. This will create a supply shortage over the long-term and is already affecting global supplies, with falling production from Iraq and Libya causing OPEC crude output in January 2014 to fall.

### 4. Global demand for oil is catching up with supply

The IEA released a report that shows global demand for refined petroleum products is catching up with supply, with the biggest surge in demand coming from the U.S. I expect this surging demand to continue because low crude prices are a far better form of economic stimulus for the U.S. economy than QE ever was.

### 5. Share prices are significantly lower than asset values

Many oil companies, particularly pure upstream or oil exploration and production plays, now see their share prices trading at a significant discount to the value of their underlying oil reserves.

After crunching the numbers and factoring in current oil prices **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) is trading at half of the value of its net oil reserves after tax. Smaller oil producers are trading at even deeper discounts. **Long Run Exploration Ltd.'s** (TSX:LRE) share price is almost a third of the value of its net reserves after tax.

## Now what?

Clearly, there are bargains to be found in the energy patch. Even the integrated energy majors that have solid balance sheets and the ability to offset declining oil production revenues by ramping up their refining operations look cheap.

These include **Husky Energy** (TSX:HSE) and **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)), which have seen their share prices plunge by 21% and 23% respectively over the last six months. Both have long life assets and refining operations that allow them to better manage weaker crude prices and the differentials between Canadian crude blends and the benchmark North American oil price, West Texas Intermediate (WTI).

Despite the pessimistic short-term outlook among some industry insiders, I expect oil prices to rebound strongly over the long-term. This will inevitably see the battered share prices of oil producers rebound strongly, making now the time to buy.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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