Which of Canada's Energy Companies Will Be the First to Recover?

Description

As Canadian energy companies deal with sharply lower profits due to the decrease in crude oil prices in the first quarter, investors will be asking themselves one key question: Which company has pockets deep enough to ride out the downturn until oil prices rebound significantly?

While it's true that crude oil prices have recovered of late, closing in on $60 a barrel, that's still a long way off the $100 high of last summer. Last week three of Canada's largest energy companies, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) released Q1 results. All three posted steep declines compared with the first quarter of last year, with both Suncor and Cenovus reporting net losses. Imperial Oil managed $421 million in net income, but that was down 55% from Q1 2014.

Suncor lost $341 million in Q1, or $0.24 per share, compared with net income of $1.49 billion, or $1.01 per share, a year earlier. Suncor also cut 200 more jobs, mostly office jobs in Calgary and Toronto, adding to the 1,000 cuts announced earlier this year. Cenovus, meanwhile, lost $668 million in the first quarter.

Still, all three companies ramped up production in the quarter, pumping out record volumes of crude oil in line with long-term investment plans. Suncor's total output was 602,400 barrels of oil equivalent per day during Q1 compared with 545,300 barrels a year earlier.

Imperial Oil's Kearl mine averaged output of 95,000 barrels per day during the first three months of 2015 versus 70,000 barrels during the same period a year earlier. Cenovus increased output from its flagship Christina Lake and Foster Creek projects by 20% to a combined 144,000 barrels a day.

The industry is wagering that increasing output will pay off over time, despite predictions that crude prices could fall further as the year goes on. Suncor updated its crude oil price forecast for 2015, dropping its projected price for West Texas Intermediate crude to $54 a barrel, down from $59 a barrel in January.

Despite its pessimistic predictions, Suncor appears to have the best chance of dealing with this downturn, which could be crippling for smaller companies. Suncor's cash flow from operations remains at a healthy level of $1.48 billion, down from $2.88 billion last year. “Suncor’s ability to generate solid cash flow during the first quarter of 2015 demonstrates the strength of our integrated model and spending discipline in the current crude price environment,” said CEO Steve Williams.

If you’re a betting man or woman, Suncor, Canada’s largest oil sands producer, is probably your best pick. But that’s the problem. Any investment in an energy company these days feels like betting, and that’s not a comfortable place for long-term dividends investors. It’s best to wait this one out before committing to any major positions in the energy sector.

CATEGORY

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1. Editor's Choice

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:SU (Suncor Energy Inc.)

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dwatt