1 Important Number Every Oil Investor Should Understand

Description

With growing signs that weak crude prices are here to stay for at least the foreseeable future, energy stocks will remain under considerable financial pressure. This is particularly the case for those with weak balance sheets and high operating costs.

It is imperative that energy investors understand this key indicator as to whether or not an energy company is capable of enduring the harsh operating environment. This important measure is the breakeven price per barrel of crude.

Let's take a closer look**.**

Now what?

The breakeven price per barrel factors in the key costs associated with finding, developing, producing, and getting the oil to market. Typically, it includes production costs, exploration costs, well development costs, transportation costs, and general administration expenses.

It is an important number for oil producers, particularly in a harsh operating environment dominated by sharply weak crude prices, because it tells them the point at which their production becomes profitable.

I have run the numbers on some of the energy patch's biggest names to see how they shape up.

Light oil heavy weight **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) requires the North American benchmark West Texas Intermediate (WTI) to be US$34 per barrel. It's now at US$42 per barrel, Crescent Point's oil production remains profitable for the time being.

The same can be said for globally diversified upstream oil company **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET), which has an even lower breakeven price of US$28 per barrel. In addition, the global nature of its operations allows it to access Brent oil pricing, which trades at a premium to WTI, giving it an advantage over its peers that operate solely in North America.

Then you have **Canadian Oil Sands Ltd.** (TSX:COS), which also remains profitable with a breakeven price of US$38 per barrel despite its high operating expenses. However, its higher cost structure means that it is generating a relatively thin margin and is particularly vulnerable to any further declines in the price of crude.

Meanwhile, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), which is gunning to acquire Canadian Oil Sands, needs just US$24 per barrel in order to break even. This is lower than many of its peers and highlights why it has continued to deliver solid results even in the current operating environment.

Furthermore, unlike its smaller upstream peers, it can also offset the lost profitability of its oil-producing operations by the higher margins it is obtaining from its refining business. Weak oil prices mean that Suncor's refining business is capable of generating higher profit margins.

So what?

Each of these companies has focused on reining in costs while slashing capital expenditures, including cutting spending on exploration to the bone. The end result is that they are capable of remaining operationally profitable despite the price of crude being around its lowest level since 2009.

Energy companies across the industry have adopted this tactic, so this explains why U.S. light oil production has not fallen as significantly or as quickly as some analysts originally predicted.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:VET (Vermilion Energy)
3. NYSE:VRN (Veren)
4. TSX:SU (Suncor Energy Inc.)
5. TSX:VET (Vermilion Energy Inc.)
6. TSX:VRN (Veren Inc.)

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