2 Oil Stocks to Play the Rebound in Crude

Description

Crude has rallied by 42% from the one-year low reached in January this year of under US$30 per barrel. The rally has given hope to a desperate energy patch, which is reeling from substantially weaker prices. It has also triggered a renewed interest among investors as to which oil stocks are the best positioned to play a rebound in crude.

Let's take a closer look at two energy stocks that should be on every investors' radar.

Now what?

The first oil stock is heavyweight **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG). Its recent dividend cut may have been disappointing for investors, but it has left the company in a far better position to weather sustained weakness in crude. It also helps to protect its cash flow and solid balance sheet in a harsh operating environment that is applying considerable pressure to many energy companies.

Crescent Point's key advantages are the quality of its light and medium oil assets as well as its low cash costs.

The weak loonie has certainly been a boon for Crescent Point; it's reduced its cash costs to about US$17 per barrel, just under half of the current price for West Texas Intermediate. This has allowed the company to remain cash flow positive, despite weak crude.

More impressively, even after slashing its 2015 capital budget by 17% in comparison to 2014, annual production grew by a remarkable 16% year over year. For the same period it reported a reserve-replacement ratio of 109% after acquisitions.

These factors highlight the quality of Crescent Point's oil acreage. The company was able to add more oil to its reserves than was lost through production over the course of 2015, despite sharply reducing its exploration budget.

As a result, Crescent Point is well positioned to take advantage of any sustained rally in crude.

The second pick is integrated energy major **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), which has taken advantage of the recent weakness of oil to beef up its asset base. Suncor made a successful all-stock takeover of **Canadian Oil Sands Ltd.** and acquired an additional 10% stake in its controversial Fort Hills oil sands project at a bargain-basement price.

Even after these acquisitions, Suncor remains cashed up, holding just over $4 billion in cash, leaving it well positioned to continue meeting its financial obligations.

Suncor continue to generate strong operational cash flow despite sharply weaker oil prices, and the above factors leave it well positioned to complete the projects it has under development.

The Fort Hills project remains on schedule. On completion it will add 91,000 barrels of bitumen daily to Suncor's total output, while the purchase of Canadian Oil Sands will add further 109,000 barrels of synthetic crude per day. This leaves Suncor well positioned to cash in on any sustained rally in crude, while its huge pile of cash and solid balance sheet give it a competitive advantage in the current harsh operating environment.

So what?

Both Crescent Point and Suncor are well positioned to not only survive the bleak operating environment now being experienced, but they'll emerge in a position to take full advantage of any sustained rally in crude.

This means that they will be able to unlock considerable value from their existing assets and significantly boost cash flows as the price of crude rises. Any additional cash flow can be used to pay down debt, hike dividends, or make further acquisitions, which would cause their share prices to appreciate.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. NYSE:VRN (Veren)
3. TSX:SU (Suncor Energy Inc.)
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