What Will Canadian Oil Companies Do With Their Massive Cash Piles?

Description

While most of the oil industry is cash strapped right now due to the deep downturn in oil prices, quite the opposite is true of Canada's largest oil producers. That country's five largest producers are sitting on a near record $8.5 billion in cash. **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) leads with $4.1 billion and is closely followed by **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) with $4.05 billion in cash.

What do these producers plan to do with all their cash?

Minding the gap

Despite its huge cash pile, Cenovus Energy's credit rating was recently downgraded below investment grade because the company has $4.7 billion in debt and its cash flow has been severely impacted by the oil market downturn. To offset the impact of the downturn, the company built up a cash war chest after it sold its royalty assets. It will primarily use that cash to bridge the gap between cash flow and its spending needs should oil prices remain week.

Cenovus Energy still has a large number of expansion projects either in progress or yet to be developed that it wouldn't otherwise be able to fund given its weak cash flow. In fact, the rating agency said that the downgrade was made because Cenovus Energy will see a "material decline in its cash flow and significantly weakened leverage and interest coverage metrics in the current oil price environment in which its cost of production is above its realized prices." Suffice it to say, it needs its cash just to survive the downturn.

Suncor Energy, on the other hand, has enjoyed much stronger cash flow amid the downturn thanks in part to its refining assets and low-cost production, which have enabled the company to be rather opportunistic during the downturn; it acquired rival Canadian Oil Sands and boosted its ownership stake in its own Fort Hills oil sands project.

Fort Hills will likely be the recipient of the bulk of Suncor Energy's cash in the near term; the company funded half of the project's $4.5 billion capex requirement this year. As such, it likely won't use its cash to make another acquisition or boost shareholder returns unless there's a bit more clarity on the long-term direction of the price of oil.

The second tier is much tighter on cash

While Suncor Energy and Cenovus Energy are awash with cash right now, the same can't be said for the rest of the top five Canadian producers. **Imperial Oil Limited** (TSX:IMO)(NYSE:IMO), **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ), and **Husky Energy Inc.** (TSX:HSE) are sitting on a combined $342 million in cash, which doesn't give them a whole lot to work with.

Imperial Oil controls the bulk of that cash at $203 million, though its cash pile just got a whole lot bigger after it sold its Esso-brand gas stations for $2.8 billion. As such, it is in a much stronger position to do something opportunistic with it cash right now. It too has growth projects that could be funded with the cash, including its recently filed $2 billion Midzaghe project or its Aspen project, which recently had its filing amended.

Husky Energy, on the other hand, has a much lower cash pile of just $70 million. The company's primary focus during the downturn is to match its capex with cash flow, which is why it continues to trim its capex budget.

Meanwhile, Canadian Natural Resources expects to see its currently meager $69 million cash pile start to grow after it finishes the next two phases of its Horizon oil sands project. That said, the bulk of that cash flow won't start flowing its way until 2018, which is when the two Horizon expansion phases are expected to deliver $2.1 billion in free cash flow at a mid-$40 a barrel oil price.

Investor takeaway

While Canada's top five oil producers are sitting on near-record levels of cash, they aren't expected to do more than horde it to ensure they stay afloat during the downturn. They all are still funding a number of legacy growth projects that will consume a large portion of that cash.

Having said that, should oil prices really start to rebound, these companies could unleash their war chests on either acquisitions or stock buybacks. In other words, this cash is intended to enable these companies to survive, so they can really thrive when conditions finally improve.

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. NYSEMKT:IMO (Imperial Oil Limited)
5. TSX:CNQ (Canadian Natural Resources Limited)

6. TSX:CVE (Cenovus Energy Inc.)
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