



New to Buying Oil Stocks? 3 Names That Are Perfect for Today's Market

Description

Like any form of investing, diversification can be a key method of risk reduction, and for investors new to the oil and gas space, this holds true. There are numerous types of oil and gas names from both a product perspective (light oil, oil sands, heavy oil, refined products) and from a size perspective (junior, intermediate, and senior).

Each has advantages and disadvantages and differing levels of volatility and leverage to oil prices. Oil sands-focused names, for example (especially integrated names that have both production and refining ability), typically have more free cash flow and less volatility, whereas light oil producers typically show higher growth and better breakeven economics because their products don't receive a quality discount like bitumen or heavy oil does.

New investors should look for a combination of quality names with solid production growth and leverage to rising prices as well as more defensive names that can smooth the volatility of an energy portfolio. Over the next year or two, oil is very likely to rise; analysts see a global supply deficit for the rest of 2016 and into 2017, and prices are simply too low today to encourage growth in U.S. supply (which has breakeven points near US\$60 per barrel).

The road to US\$60 oil will not be smooth, however, and having the proper portfolio can ensure leverage to rising prices while minimizing the violent ups and downs that the market has demonstrated of late.

Suncor Energy Inc.

Suncor Energy Inc. ([TSX:SU](#))([NYSE:SU](#)) is an excellent place to start. Suncor is predominantly an oil sands-focused firm that also has a large refining business. This allows Suncor to maximize its per-barrel value by upgrading low-priced bitumen into higher-value synthetic crude oil; it then uses its own crude as feedstock for its refining operations. Refineries produce higher-value products like gasoline. The integration between Suncor's mining, upgrading, and refining operations have been a key value driver.

Going forward, Suncor will offer low-volatility exposure to rising prices for two key reasons.

Firstly, Suncor, according to analysts at **TD Bank**, ranks second in its peer group when looking at 2019 free cash flow yield. Suncor's ability to generate large amounts of free cash flow is thanks to its oil sands operations (which don't see declining production and therefore have low levels of sustaining capital requirements).

Secondly, Suncor—thanks to the completion of its Fort Hills and Hebron projects as well as acquisitions—is set to see major production growth. This will result in 40% production growth between 2015 and 2019, and the end result is that Suncor's sensitivity to a \$1 increase in oil prices will grow from \$165 million in 2015 to \$220 million in 2016 and more going forward.

Crescent Point Energy Corp.

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) provides more leverage to rising prices than Suncor without much more risk. Crescent Point is a light oil producer and offers exposure to some of the best light oil assets in North America with fairly low risk.

Crescent Point has very low debt levels compared to peers. Debt to cash flow is expected to be 2.5 for 2016 compared to the peer group average of 4.6. In addition, Crescent Point's current capital budget of \$950 million is set at US\$35 per barrel. This means that Crescent Point will generate free cash flow as long as prices are above this level.

This means a likely explosion of free cash flow going forward—TD bank sees Crescent Point generating \$3 billion of cumulative free cash flow by 2020.

Birchcliff Energy Inc.

Finally, investors looking for higher-risk exposure can consider purchasing **Birchcliff Energy Inc.** ([TSX:BIR](#)). Birchcliff is much smaller than both Crescent Point and Suncor (less than half Crescent Point's production) and differs from both these names due to the fact that most of its production is natural gas. This provides diversification to oil and exposure to another commodity with very favourable upside.

Birchcliff has reasonable debt levels and very favorable production growth with 28% year-over-year growth expected in 2017.

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2. Investing

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1. Editor's Choice

TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)

2. NYSE:VRN (Veren)
3. TSX:BIR (Birchcliff Energy Ltd.)
4. TSX:SU (Suncor Energy Inc.)
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