If This Analyst Is Right, These Oil Stocks Will Explode Higher

Description

According to an analyst at **Bank of America**, oil could reach $69 per barrel by the middle of next year. That price is well above the most optimistic oil-price scenario for companies such as **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE), both of which are positioned to thrive at a $50 oil price.

As a result, these oil companies could really cash in if the bank is right and crude rebounds near $70 a barrel over the next year.

Good at $50. Great at $60

Canadian Natural Resources spent the past couple of years repositioning its business to thrive at lower oil prices. As a result, the company projects that by the end of this year it will be able to fund its capex and dividend going forward at just $30 oil. Because of that, it expects to generate a growing supply of free cash flow as oil heads higher.

In a low-oil-price world of about $50 a barrel, Canadian Natural Resources thinks it could generate $600 million in cash flow next year with that number growing to $1.5 billion in 2018 after phase three of its Horizon project comes online.

However, those numbers surge if oil averages $60 a barrel with the company's forecast growing to $1.4 billion in free cash flow next year and $3 billion the following year. Should oil run even higher, it will fuel an even larger surge in the company's cash flow and likely its stock price.

Accelerated growth rate

Penn West Petroleum is in a similar boat. Under its current projections the company expects that it can generate enough cash flow to grow its production at a 10% compound annual rate for the foreseeable future as long as oil remains over $50 a barrel. Further, it expects to be able to do that while generating an increasing supply of excess cash flow each year, which could enable the company to bring back its dividend.

That said, if oil were to average $60 a barrel, Penn West Petroleum believes that it would then be in the position to deliver 15% compound annual production growth. Under that scenario the company would also generate an increasing supply of excess cash flow, likely meaning even more robust dividend growth.

However, if oil were to run up towards $70 a barrel by the middle of next year as Bank of America predicts, it would enable Penn West to generate a boatload of excess cash flow next year. That rising tide would drive its stock price much higher.

Investor takeaway

Penn West Petroleum and Canadian Natural Resources are positioned to thrive even if oil stays around $50 a barrel. Because of that, the higher oil goes, the better these companies will do. So, if Bank of America is right about oil, these two oil stocks would be big winners.

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1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

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