3 Great Oil Stocks to Buy for 2017 and Beyond

Description

While the oil market is on the mend, there's still lots of uncertainty about what oil prices will do in the future. That's a problem for most producers because they require higher prices to provide them with the cash flow needed to get back on their feet.

That said, not all companies need higher prices to thrive next year. In fact, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), and **Encana Corp.** (TSX:ECA)(NYSE:ECA) are expecting big things for the foreseeable future, even if oil doesn't do that much.

Investments start paying off

Leading oil sands producer Suncor recently put out preliminary guidance for 2017. While the Canadian oil giant said it expects to spend $1 billion less next year on capex, it sees that capital fueling 13% more production. Driving that extremely efficient capital program is the company's recently boosted stake in Syncrude and the fact that two major projects will start producing by year-end.

The company expects to fund its capex program, dividend, and capitalized interest within cash flow as long as oil is in the mid-$50-a-barrel range. Further, the year-end completions of Fort Hills and Hebron put the company on pace to achieve 6% compound-annual-production growth per share through 2019, while spending even less on capex. Because of that, Suncor can thrive in the future, even if oil doesn't move much.

Meanwhile, if oil rebounds Suncor can generate an enormous amount of free cash flow, which it could use to boost shareholder distributions, further strengthen its balance sheet, or invest in future growth initiatives.

Merger and growth projects juice the dividend

Like Suncor, Canadian energy infrastructure giant Enbridge will benefit from the impact of recent acquisitions and completed growth projects in 2017. In fact, the biggest driver of growth next year will be the completion of its pending merger with natural gas pipeline giant **Spectra Energy Corp**. That deal alone is expected to enable the pipeline giant to increase its dividend by 15% next year.

Meanwhile, thanks to the combined growth pipeline of both companies, Enbridge expects the projects they currently have under development will deliver 12-14% compound annual growth in available cash flow per share through 2019.

Further, thanks to the near-term visibility of those projects, as well as the enormous backlog of future opportunities beyond its current slate of projects, Enbridge believes it will deliver 10-12% annual dividend growth through 2024. That visible growth rate is unmatched in the energy sector.

Ready to restart the growth engine

Encana took a slightly different approach to get back in the position to grow in the future; it spent the past couple of years repositioning its portfolio to thrive at much lower oil and gas prices. This transition led the company to jettison lower-margin assets, which then gave it the capital to dramatically improve its balance sheet and acquire high-margin, liquids-rich growth assets. With that transition now complete, Encana is ready to re-accelerate in 2017.

Under the company's current plan, it projects to grow its production 60% by 2021. Further, due to a focus on high-margin production growth, the company sees its corporate margin doubling, which will fuel 300% cash flow growth in five years. All the company needs to achieve this growth plan is $55 oil and $3 natural gas.

The reason it can deliver such a robust growth rate at lower commodity prices is due to the company's growing supply of premium wells, which are those that can achieve 35% after-tax rates of return at $50 oil. Because of those returns, the company could still grow at lower oil prices, albeit at a slower pace, while potentially achieving accelerated growth rates if prices move higher.

Investor takeaway

While many oil companies need higher oil prices to fuel growth in the future, that is not the case at Suncor, Enbridge, and Encana. That is because those companies will benefit from all their hard work during the downturn, which transformed them, so they can achieve high growth rates at lower commodity prices. As a result, these stocks are among the best positioned to thrive no matter what oil does in 2017 and beyond.

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1. Editor's Choice

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Date
2025/08/16
Date Created
2016/11/29
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