3 Canadian Oil Stocks I Would Seriously Consider Buying Right Now

Description

There's growing uncertainty in the oil market these days. After rebounding over the past year, oil prices have turned lower in recent weeks, plunging back below $50 per barrel. Several oil stocks have followed it down, including **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Encana Corp.** (TSX:ECA)(NYSE:ECA), and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG).

However, instead of joining the crowd and selling out of oil stocks, you might want to join me and consider buying this trio of top-tier oil stocks. Here's why.

A well-oiled machine

Suncor is a better oil company today than it was when oil prices were triple digits. That's because the company has taken advantage of opportunities during the downturn to improve all aspects of its business.

One of the most evident improvements is the makeup of the company's portfolio. Suncor pounced on the opportunity to acquire oil assets at a discount, bolstering its stakes in the producing Syncrude facility and the upcoming Fort Hills mine, while taking a shot at future growth through the acquisition of an interest in the Rosebank discovery in the North Sea.

The company also cashed in several non-core assets, including its lubricants business, a wind farm, and some storage assets. As a result, the company set itself up to deliver significant production growth, including anticipating 13% production growth this year.

In addition, the company has dramatically reduced costs. For example, cash operating expenses per barrel have declined from $28 to $24.95 in the oil sands over the past year and from $40.15 to $32.55 at Syncrude. Because of this, the company generated more cash flow last quarter than it did in the fourth quarter of 2015, despite lower oil prices. With its shrinking expenses and clear production growth on the horizon, Suncor should thrive in the current market environment.

Lots of low-cost growth opportunities

Encana is another company that has focused on getting its costs down, so it can thrive at lower oil prices. The company has tackled costs on several angles; it has cut $3 billion of debt since the end of 2014, which cut its interest expenses by 40% since 2012, or about $70 million per quarter. In addition, the company has reduced general and administrative expenses 55% since peaking in 2012, shaving about $40-45 million in quarterly expenses.

In addition to those operational cost savings, Encana has cut drilling costs to such a degree that it now controls 10,000 future drilling locations that can generate a 35% after-tax rate of return at $50 oil. Most of these cost savings are permanent thanks to a focus on efficiency gains, self-sourcing of supplies, and optimization efforts. Encana is in the position where it can still deliver substantial growth, even at current oil prices.

A low breakeven point

Crescent Point has also worked hard to reposition itself to thrive at lower oil prices. As a result of those efforts, the company is in the position to deliver steadily expanding production in 2017 with plans to increase its output 10% by the fourth quarter. Further, the company can pay for that growth and its dividend while living within cash flow at $52 oil.

While crude oil has recently fallen below that breakeven level, that's not much of a concern for Crescent Point because it has a cash-rich balance sheet, thanks in part to generating excess cash flow when oil was above that level earlier this year.

Further, Crescent Point's $52 breakeven level is lower than most rivals; Encana, for example, isn't on pace to break even at its current spending rate until 2018, and that's assuming oil averages $55 per barrel. Though, like Crescent Point, Encana has a cash-rich balance sheet and billions of dollars in total liquidity to bridge any gaps in the interim. It's that cushion that should enable the company to keep drilling, even though oil prices have taken a dip.

Investor takeaway

Suncor, Encana, and Crescent Point all anticipate delivering double-digit production growth this year, even if oil prices remain volatile. These companies are in that position because they have significantly improved their balance sheets and cost structures, so they can thrive at lower oil prices. That's why oil investors should consider taking advantage of their recent sell-off to add one or more of these high-quality oil stocks to their portfolios.

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