Could Oil Rise in the Next Few Months?

Description

With some analysts calling for big oil price increases in the next few months, given the increased geopolitical risk that we are seeing, this may be a good time for investors to review their energy holdings and add some attractively priced names to their holdings.

Last week's U.S. missile strike in Syria has reminded investors of how precarious the geopolitical environment really is. And while Syria only produces a small amount of oil, the Middle East in general is politically unstable; ripple effects could affect other regions with a larger amount of oil production. Add to that the shutdown of Libya's biggest oil field, which produced 200,000 barrels of oil per day, due to clashes and civil unrest, and we can see how the risk premium related to oil is rising again.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) has a dividend yield of 3.06%, an attractive valuation of 10.5 times last year's cash per share, under seven times this year's cash per share, and a very healthy balance sheet which has supported a growing dividend, even in a time of "low" oil prices.

Suncor is an energy name that should continue to thrive. The company acquired Canadian Oil Sands in 2016 in a move that was made at oil prices of in the $30 range; oil was at a cyclical low — the best time for a company to be an acquirer.

In the fourth quarter of 2016, the company reported a 57% increase in operating cash flow per share, a 27% increase in production, and a decreasing cost profile with cash operating costs in its oil sands operations down to $25 per barrel. The company also announced a 10% increase in its dividend, which should further solidify its position as a great income-generating stock.

Rig counts continue to rise, which is also a bullish sign for the sector. In Canada, the March rig count increased to 253 rigs compared to 88 in March 2016, according to **Baker Hughes**. In the U.S., the rig count was 789 — an increase of 65% versus March 2016.

Mullen Group Ltd. (TSX:MTL) is another best-in-class company that should thrive in the coming year. While fourth-quarter 2016 results were dismal, the company's balance sheet is in good shape with $273 million in cash as at the end of 2016 and $75 million in unused credit.

Mullen has also been a buyer in the cyclical low environment. Mullen's oilfield services segment has been made even stronger with the recent acquisition of Envolve Energy, a well disposal business that generates a 25% return on capital employed and will add annual revenue of $8 million.

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Date
2025/07/01
Date Created
2017/04/11
Author
karenjennifer