Anticipating Higher Oil Prices? Here's a Breakdown of Canada's Major Players

Description

The price of West Texas Intermediate (WTI) crude oil rose by 5.2% last week, and is up a total of 10.6% over the past four weeks.

With the U.S. Dollar falling and commodities prices on the rise, many speculators are likely licking their lips at the possibilities of what may be coming around the pike.

Here's a breakdown of some of the major players operating in the Canadian oil sands and how they stack up against one another:

Baytex Energy Corp (TSX:BTE)(NYSE:BTE)

Baytex is arguably the highest leveraged play within the oil sands today. With WTI currently trading just below US$50 per barrel, Baytex is struggling to keep the lights on.

Yet, if oil prices could surpass the US$55 mark by the end of the year, Baytex would be once again be generating positive free cash flow – a feat the company has struggled to achieve on a consistent basis since 2015.

While the company is facing production declines amidst cut-backs on capital spending, a higher oil price is the difference between night and day for Baytex – and would allow for reinvestment in production increases, debt repayment and possibly even capital distributions.

Crescent Point Energy Corp (TSX:CPG)(NYSE:CPG)

Crescent Point is another "high-cost" producer, like Baytex, meaning the company requires a higher oil price – likely above US$70, in order to turn a profit.

Yet the major difference between the two companies is that Crescent Point carries a much lighter debt load on its balance sheet.

The company's long-term-debt to equity ratio is only 0.43x, which shouldn't be much of a concern to investors.

And, while Baytex has been burning through cash this year, Crescent Point is a much different story, with free cash flow of $227 million through the last twelve months of operations.

Cenovus Energy Inc (TSX:CVE)(NYSE:CVE)

Cenovus is the first of two “integrated” names that make this list.

As an integrated producer, Cenovus is not just involved in extracting crude from the ground but also takes the crude and refines it into consumer products like gasoline and diesel.

So, while Baytex and Crescent Point are directly impacted by lower oil prices, this risk is at least partially offset for Cenovus as the lower oil price acts as a lower input cost into its end-products.

Thus, the more important factor at play for Cenovus right now is the “crack spread,” or difference between the price of crude and the market for refined products.

Suncor Energy Inc. (TSX:SU)(NYSE:SU)

Suncor is the second of the two integrated companies and by a considerable margin, the “safest” of the four.

Warren Buffett famously made a large investment in Suncor several years ago, touting the company for the long-term potential of its vast oil sands reserves.

Yet, Buffett no longer holds shares in Suncor, which may say something about how the prospects for the company have changed over the past decade.

Suncor is the largest of the four with a market capitalization of $63 billion and has a debt-to-equity ratio of only 0.35x, both factors contributing to the relative safety of the company’s shares.

Which one is right for you?

Baytex will be the preferred choice for risk-takers and speculators alike, but conversely stands the best chance of a losing investment.

Crescent Point would be one rung up the “risk ladder” so to speak and while it may be some time before the company is back in the black again – that may not stop investors from seeing a considerable gain in the share price before it transpires.

As integrated producers, Cenovus and Suncor play by a different set of rules, as their integrated business model operates as a kind of “built-in hedge” against oil prices.

They are relatively safer as a result, yet that safety won’t offer you the same kind of upside potential as either of Baytex or Crescent Point.

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