Oil Retreats: Where Are Enbridge Inc. and Suncor Energy Inc. Headed?

Description

Oil prices continued to slip on October 4 without any discernible catalyst beyond a rally fatigue. Prices had been up after a large drop in U.S. weekly supply was reported. The U.S. Energy Information Administration revealed that commercial crude inventories declined by six million barrels from the week ending September 29. This was unexpected as production had suffered due to Hurricane Harvey, but many refineries have been brought back online — now operating at 88.1% capacity.

Oil has dipped below the $50 mark, but renewed confidence may not keep prices down for long. The strong performance from the S&P/TSX Index in September owes a good deal to the surge in oil and gas stocks.

Calgary-based distribution company **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) has increased 4.1% month over month but is still down 7.7% in 2017. The company has been embroiled in a battle with the Minnesota Commerce Department over its Line 3 replacement project. Public hearings began in late September, which could derail the project; it has also been attended by a number of protesters. The $7.5 billion project spans Canada and Wisconsin. Enbridge is also involved in a tax fight with several northern Minnesota counties, where it claims it was overcharged properties taxes between 2012 and 2014.

Enbridge released its second-quarter results on August 3. Enbridge projected the Line 3 replacement to conclude by 2019. If Minnesota ultimately opposes the expansion, the company has said that it will reorient solely to Wisconsin and Canada. Enbridge still has a plethora of infrastructure projects in its pipeline, and higher oil prices should boost its next earnings report. The stock also boasts a strong dividend of $0.61 per share with a 4.7% dividend yield.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) stock has climbed 10.5% month over month. Suncor has been one of the strongest performing Canadian energy stocks over the course of this oil rally. The company released its second-quarter results on July 26. Total oil sands production was reported at 413,600 barrels per day compared to 213,000 barrels per day in Q2 2016.

In a late September interview, Suncor CEO Steve Williams predicted a bright future for Canadian oil sands. The industry continues to come under fire from environmentalists and those who have a bearish outlook on oil, as green-energy solutions continue to be pushed and adopted by governments. Mr. Williams said that Suncor was dispelling the myth that the oil sands were environmentally damaging and a financial drain. He pointed to Suncor’s operating costs and overall financials, even with low oil prices this year.

The stock offers a dividend of $0.32 per share, representing a dividend yield of 2.9%. Oil sands cash operating costs per barrel were $27.80 in the second quarter. The Fort Hills project is also very close to completion.

Experts and analysts are anxious to see whether the Organization of Petroleum Exporting Companies (OPEC) will extend the production halt past March 2018. If, as expected, OPEC proceeds with the extension, oil prices should stabilize into next year. Enbridge and Suncor have big projects in the pipeline and offer attractive dividends. Even after this recent rally, they are solid buys for any portfolio.

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