The Next Catalyst for Oil and Where to Invest

Description

Now that we're several weeks removed from the last major hurricane, investors have had the opportunity to assess the ramifications of reducing the refining capacity within the industry. Essentially, the price of oil increased to more than US$52 per barrel, only to fall back under the US$50 mark in the days that followed.

After turning yet again, the price of oil and many securities that profit from a higher oil price are currently trading higher. Shares of **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), a higher-cost exploration company, have increased from a 52-week low of close to $8 per share to more than $10 per share. As the company is more vulnerable to low oil prices, the upside is also significantly higher. On the less risky side, shares of **Inter Pipeline Ltd.** (TSX:IPL), a pipeline company, have increased from $23 to $26 per share, while continuing to maintain a dividend that yields close to 7%.

As the future for oil is looking a little rosier for investors, where should they invest?

For investors seeking a lower-risk "total return" opportunity, shares of either Inter Pipeline or **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) offer above-average dividends, while delivering a relatively lower amount of capital appreciation to investors. As a reminder, when a company generates positive cash flow or profit, the money can either be paid out in the form of dividends or retained in the company in the form of retained earnings.

When considering that higher retained earnings (and lower dividends payouts) can lead to substantially higher and more volatile share prices, investors seeking to make a much higher return on their dollars will want to consider names such as **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which will increase at a very substantial rate when the price of the underlying commodity increases as well. The downside, however, is that if the price of oil turns and resumes its long-term decline, the company may be forced to burn the furniture to stay warm during the winter.

The company which may offer the best of both worlds is **Husky Energy Inc.** (TSX:HSE), which has a market capitalization of more than $15 billion and trades at a trailing price-to-earnings ratio (P/E) of 10.5 times. In addition to a reasonable earnings multiple, the company also trades at a slight discount to tangible book value.

In addition to receiving valuable assets, which will produce profit for shareholders, those willing to be patient with this name will eventually see the re-initiation of the dividend, which was cut several years ago when oil began its decline.

With the potential for a further upswing in oil prices, as many companies scale back their operations, some due to unpredictable events such as hurricanes, others will be doing so as older projects, which had been committed to run-off, and new projects fail to clear the hurdle rate, essentially reducing supply.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:VRN (Veren)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:PPL (Pembina Pipeline Corporation)
5. TSX:VRN (Veren Inc.)

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