Why This Oil Sands Company Remains the Safest of the Bunch

Description

With uncertainty surrounding the oil & gas sector still haunting many investors who dived into the up-and-coming Canadian oil sands operations in 2013 and 2014, when oil was trading above the $100 level, many investors are left to wonder if it is still possible to safely invest in oil sands in the year(s) to come.

Recent reports of an oil glut in Canada's oil sands, in which new production has swamped Canada's oil pipelines, remains a serious threat for investors considering the oil & gas sector in Canada. A recent research report released by **Royal Bank of Canada** has dampened the outlook for many prominent Canadian operations hoping for an improvement in the supply-demand imbalance, which has largely been blamed for the downward pressure on the stock prices of most major Canadian oil producers in recent years.

The gist of the research report is that continued price pressure on the benchmark Western Canadian Select price is likely to worsen in 2018, as higher amounts of heavy Canadian crude will be forced onto trains. Canada's energy transportation infrastructure (pipelines) will not be able to handle expected increased production stemming from large multi-billion investments made by Canada's biggest players prior to the oil price crash two years ago.

To make matters worse, as fellow Fool contributor David Jagielski has pointed out, the recent announcement of **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) in which the company committed to cutting more than 500 jobs has certainly not helped the string of bad news that has hampered the company's share price and overall sentiment within the Canadian oil & gas sector of late. The industry trend of large players cutting labour and capital expenditures in a bid to increase cash flows does not appear to be abating, and this headwind is certainly one investors interested in increasing exposure to Canada's oil operations will need to be mindful of.

That said, companies such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) remain a top pick of mine for cautious long-term investors focusing on the energy sector as a value strategy in 2018 due to the company's diversified operations and low correlation with oil prices relative to the sector. The same RBC research report noted that Suncor would only experience a 1% decline in cash flows if the price discrepancy between Western Canadian Select and the U.S. benchmark price increased by 3%. In contrast, other large Canadian producers would stand to see cash flows cut by more than 25% on such a cut.

While Suncor is certainly not as cheap as many of the other value plays in Canada's oil sands, the diversification of the company's operations (mainly the company's refining portfolio) lend a hand to investors looking for steady cash flows in an otherwise increasingly volatile sector.

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