Oil Investors: Here Are 3 Companies Less Affected by the Western Canadian Select Discount

Description

With the discount that many Canadian oil producers are currently stuck with (Western Canadian Select vs. WTI Crude or Brent Crude) growing substantially in recent months, many investors are rushing to the doors, exiting oil companies with significant exposure to Canada's oil sands.

While Western Canadian Select, the oil produced from Canada's oil sands — much heavier and more difficult and expensive to transport than the light-sweet crude produced from fracking operations generally centered in the U.S. — has traditionally held a discount to WTI Crude (the U.S. benchmark price) and Brent Crude (the global benchmark price), the gap has more than doubled over the past nine months due to changing fundamentals in the oil market.

I've highlighted the WCS-WTI discount as a key risk for oil companies with significant exposure to Canada's oil sands, such as **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE), in the past — let's just say 2017 was not a favourable year for Cenovus shareholders. Other companies, such as **MEG Energy Corp.** (TSX:MEG), with complete exposure to Canada's oil sands, have dropped nearly 90% in the past 18 months as a direct reflection of the changing low-price commodity environment combined with a widening discount Canadian oil sands producers are now receiving.

Here are three companies that may be a Canadian oil investor's best options.

Suncor

Canada's largest and most prominent oil company, **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), has been one of my top picks for some time now due to the company's diversified portfolio of oil and gas operations. The extremely low correlation between Suncor's stock price and the price of oil speaks to the ability of Suncor to be an effective oil hedge against other oil and gas companies that may be highly leveraged or tethered to benchmark prices.

Suncor is up 10% since the beginning of 2017, and I expect 2018 to be another solid year for the major player.

Tourmaline Oil

Moving almost entirely away from the Canadian oil sands, **Tourmaline Oil Corp.** (TSX:TOU) has the vast majority of its operations centered in the Deep Basin formation in western Canada — oil which trades very near the WTI benchmark, giving Tourmaline a huge advantage over its major peers.

Given the relative lack of a discount provided by Tourmaline, this is an excellent company to be viewed as a hedge against a growing discount gap in 2018.

Vermilion Energy

A global pick for investors looking to get out of Dodge is **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET). The company has the majority of its operations located outside Canada, making Vermilion an excellent way to play global growth and Brent/WTI prices to offset Canadian oil sands exposure.

Stay Foolish, my friends.

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3. NYSE:VET (Vermilion Energy)
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