3 Stocks That Should Thrive With +US$60 Oil

Description

With the WTI oil price having recovered nicely to above US$60 per barrel, energy companies should do better. In fact, some will excel because their operations have adapted to lower oil prices.

Particularly, **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ), **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET), and **Spartan Energy Corp.** (TSX:SPE) have the lowest sustaining capex breakeven WTI price (of US$40 or lower) among their peers. Moreover, the 2018 free cash flow yields of these three companies are expected to be among the highest compared to their peers.

Let's take a look at these companies.

Canadian Natural Resources

Canadian Natural Resources is a large oil and gas producer with a diverse asset base.

Its production mix is about 38% oil sands mining and upgrading, 25% natural gas, 25% heavy crude oil, and 12% light crude oil and natural gas liquids.

The company has a strong balance sheet, which supports an investment grade S&P credit rating of

BBB+. Additionally, management estimates the company will grow its funds flow per share by about 17% this year based on a WTI oil price of US$52, a NYMEX natural gas price of US$2.91, and a AECO natural gas price of $2.11.

The analyst consensus from **Thomson Reuters** has a 12-month target of $52.60 on the stock, which represents upside potential of about 16% from the recent quotation of roughly $45.20 per share. Add in the dividend for a near-term total return of nearly 19%.

Vermilion Energy

Vermilion Energy is a global oil and gas producer with high netback businesses in Europe, North America, and Australia. Its production mix is about 32% European gas, 24% Canadian natural gas, 24% Brent oil, 14% WTI oil, and 6% natural gas liquids.

Vermilion Energy enjoys premium pricing from Brent oil and European gas, which is why it tends to trade at a premium to its peers. The analyst consensus from Reuters has a 12-month target of $53.20 on the stock, which represents upside potential of about 8.6% from the recent quotation of $49 per share. Add in its juicy yield of almost 5.3% for a near-term total return of nearly 14%.

Spartan Energy

Spartan Energy is a small oil-weighted producer (about 91% oil). Small companies are typically viewed as riskier than their bigger counterparts. However, Spartan Energy is led by an experienced management team and is focused on generating free cash flow on quality assets. So, the stock can deliver more upside than its bigger peers.

The analyst consensus from Reuters has a 12-month target of $9.55 on the stock, which represents upside potential of about 35% from the recent quotation of $7.08 per share.

Investor takeaway

Canadian Natural Resources, Vermilion Energy, and Spartan Energy are quality energy companies to consider owning with higher oil prices. Here are more energy stocks for your consideration.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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2. NYSE:VET (Vermilion Energy)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:VET (Vermilion Energy Inc.)

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kayng