



What Will Help the Oil and Gas Industry Finally Get Going?

Description

Oil and gas stocks have been struggling, even though we've seen oil prices climb in the past six months. Unfortunately, with oil prices being artificially supported by [supply cuts](#), we could see a big correction when those restrictions end later this year.

The problem is that there simply might not be enough demand to support a high price of oil. However, Alberta is trying to do what it can to help inject the struggling industry with some life.

Last week, Premier Rachel Notley announced that the province would be investing \$1 billion via loan guarantees and grants with the aim of upgrading bitumen, so it can be used more efficiently in pipelines and reach more consumers.

The funds will be used to attract oil-upgrading facilities; the hope is that it could result in an additional \$5 billion being invested from private investors, which would add jobs and give the industry a big boost, and that would help lift many oil and gas stocks.

What does this accomplish?

Bitumen is thick and doesn't easily flow through pipelines the way that crude oil does, and that's why further processing, or upgrading, is needed to facilitate that. Doing so will enable more of the product to be shipped to refineries, and that could potentially lead to more sales. It will also create efficiency and free up capacity on pipelines, allowing for more to be transported.

Although the project is not expected to begin in 2019, it will last for eight years and will hopefully act as a catalyst in the industry's recovery.

Is this a solution?

Critics point out that being able to reach more customers may be moot, especially since the U.S. is a key customer, and it no longer has the same need it once did for Alberta's oil. However, it will help create efficiency and increase the value of the product, which will only help sales and marketability.

By upgrading the bitumen and making it easier to transport, costs will decrease, and that will reduce the need to sell the supply at a big discount. The key is how well this will attract investors and whether it will be enough to encourage more capital investment in an industry that has been gun-shy given how uncertain the market has been and how volatile oil prices have been.

Oil and gas stocks need help

In its most recent quarter, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) grew its sales by nearly 40% from last year, but that still hasn't been enough to keep the share price from sliding. In the past month, the stock has dropped 6% in price, even amid the strong growth; it's on its way to a new 52-week low.

We've seen a similar problem with **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), which recovered from the [abyss](#) last year but has once again found itself trading at a big discount. Although the company has also shown progress, and even though it has posted a profit in four of the last five quarters, that has also not been enough to make investors bullish.

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