2 Energy Stocks That Are the Calm in the Trans Mountain Pipeline Storm

Description

As the uncertainty surrounding the Trans Mountain pipeline escalates, we are looking for answers as to whether this crucial $7.4 billion expansion project will go forward or not.

The industry (and Canada) desperately needs this project to move forward. But even though Ottawa says it is 100% behind the project, opposition from British Columbia and aboriginal groups persists and continue to leave it in limbo.

The project will effectively increase pipeline capacity from 300,000 to 890,000 barrels a day, resulting in increased access to the west coast and to new markets for Canadian oil.

But for now, the industry continues to struggle with export pipeline and rail constraints out of Alberta, widening the differential between the Western Canadian Select price and the Western Texas Intermediate price.

How can we capitalize on this uncertainty?

Let's shift our focus now and look at a couple of oil and gas producers that, despite these industry challenges, still represent good investment opportunities.

Because longer term, these capacity problems will be solved, and Canada's large oil resources will increasingly make their way into new export markets.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) is special, because it offers a long-life, low-decline portfolio and oil and gas assets that have given the company a predictable and reliable stream of cash flow with little reserve-replacement risk. This means investors get exposure to the sector's upside, while mitigating the downside risk.

In the fourth-quarter 2018 results release, management reported a 60% increase in cash flow per share, as production increased 19% and its realized price increased to $54.71 from $43.27 last year. Furthermore, the company announced a 22% dividend increase, signaling its bullish long-term view.

We can expect Canadian Natural to continue to see a significant ramp up in free cash flow generation in the next year.

This will be driven by the company's recent acquisition of 70% of the Athabasca Oil Sands Project (AOSP), which provides an immediate, increasing contribution to cash flow, but also provides the opportunity for efficiencies due to the close proximity of AOSP to Canadian Natural's Horizon oil sands operation, which will further enhance its contribution to cash flow in the medium term.

Cenovus Energy Inc. (TSX:CVE)(NYSE:CVE) is another producer that is generating interest due to its large resource base, good growth potential from its oil sands expansions, and attractive valuation.

And while the company is not immune to these industry challenges, it is adjusting to the reality and making the best decisions for the company and its shareholders. It's rescheduling maintenance to times of lower pricing and even suspending some production temporarily.

Cost reduction, debt reduction, and an unrolling of the poorly timed hedge book should act as catalysts for long-term value creation.

Trading at a 0.8 times price-to-book multiple, this stock represents good long-term value.

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