Is it Finally Time for Canadians to Double-Down on Alberta's Oil Patch?

Description

It's hard to ignore oil's impressive rally to US$75, as it continues to defy gravity and the expectations of many pundits on the Street, many of whom were calling for oil prices to pull back and stabilize around the US$50-60 levels over the past several months.

This pullback hasn't happened though, and as oil's rally continues to gain momentum, we're starting to see firms raise their price targets for WTI. And that's in spite of President Trump's mission to bring oil prices back down by urging Saudi Arabia to turn on the taps to raise oil production by as much as two million barrels per day.

Royal Bank of Canada Capital Markets recently boosted its outlook for oil prices, expecting WTI to average US$67.77 per barrel in 2018, up from the original estimate of US$63. Expectations for 2019 were also boosted to US$75.91 per barrel for 2019, up from the initial US$65 estimate. The investment bank also believes that the gap between WCS (Western Canadian Select) and WTI to remain until newly constructed pipelines are flowing.

At this point, it looks like the oil bottlenecks up north will be gradually reduced over time as pipeline firms continue jumping through regulatory hurdles and moving through resistance from local communities.

Also, with the rails looking to increase their role in alleviating the pressure, we may see the WCS-to-WTI discount erode a lot quicker than most would think over the next few years. And if oil prices continue soaring, many of Alberta's troubled names may be poised to take off, as they begin catching up to the magnitude of oil's recent rally.

Canadian Natural Resources Ltd. (TSX:CNQ)(NYSE:CNQ) is one of the more popular oil sands plays on the TSX because of its high-quality integrated assets that allow it to be less sensitive to the price of oil than many of its peers in the space.

The company has lower-than-average operating costs versus your average operator in the oil sands, and as a result, the stock stands to hold its ground should oil prices end up reversing or crashing like they did in 2014.

For truly long-term investors with a time horizon beyond a decade, Canadian Natural has a tonne of promising offline production assets that allow for the company to the keep the oil (and cash) flowing likely until the world has finished its transition to renewable sources of energy (however long that will be). With oil prices continuing to surge well above breakeven prices, it’s likely that more of Canadian Natural’s less economical offline projects may be poised to come online, as the company gradually turns on the spigot.

Also, the company has a rock-solid dividend (2.8% yield) and a history of share repurchases. If oil continues showing signs of strength, though, I suspect management will stop buying back its shares and put its money towards new projects that continue to look more economical as oil continues to soar.

If you think oil prices can remain above the $70 levels, you can’t go wrong with an investment in Canadian Natural; however, your upside would be limited to that of a non-integrated producer like **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE). which could skyrocket in conjunction with oil prices.

Shares of Canadian Natural have a premium price tag attached to them thanks to its robust integrated assets and ability to fair well when oil prices are depressed. With that in mind, if you’re a deep-value investor, I’d go with Cenovus over Canadian Natural.

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joefrenette