2 Top Stocks to Play an Oil Recovery

Description

A recovery in oil prices over the past year has spurred new interest in energy producers and the companies that help the upstream players get their product to market.

Let's take a look at three Canadian stocks that should be on your radar today.

Suncor Energy Inc. (TSX:SU)(NYSE:SU)

Suncor is a major oil sands producer, but also has offshore production facilities. In addition, the company owns four large refineries and more than 1,500 Petro-Canada retail stations.

Through its diversified business units, Suncor is able to realize better pricing for its product than some of the other Canadian producers, who are stuck taking discounted Western Canadian Select (WCS) prices, which can vary significantly from West Texas Intermediate (WTI) and Brent rates.

Suncor completed the Fort Hills and Hebron development projects late last year, and both projects are ramping up production at rates that are ahead of expectations.

A power outage has shut down the massive Syncrude oil sands facility, which will hit Suncor's Q2 and Q3 production, but the company remains an attractive bet for buy-and-hold investors.

Suncor raised its dividend by 12.5% for 2018. The current payout provides a yield of 2.7%.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI)

Pipeline bottlenecks and rising oil prices are making crude-by-rail more attractive again. In fact, the National Energy Board (NEB) recently released a report stating that crude-by-rail exports hit a record 193,000 barrels per day (bbl/d) in April.

The previous record was 179,000 bbl/d in September 2014.

A number of factors are driving the higher demand for heavy crude, including lower output from Venezuela. The OPEC producer is seeing significant production reductions as a result of a crippling economic crisis. Refineries in the southern United States that have relied on Venezuela's oil are now seeking alternative supplies, including Canadian heavy crude.

Earlier this year, the International Energy Agency (IEA) said crude-by-rail exports could hit 390,000 bbl/d by the end of 2019. Beyond that time frame, Enbridge's Line 3 project should be complete and Trans Mountain now looks like it will be built, so pipeline capacity improvements should reduce the heightened crude-by-rail demand, but shipments could simply return to current levels.

CN is investing billions in rail network upgrades, new locomotives, and expansions at its yards and intermodal hubs. Despite the big capital outlays, the company still generates significant free cash flow and has a strong track record of sharing the profits with investors.

CN has a compound annual dividend growth rate of better than 16% over the past 20 years.

The bottom line

Suncor and CN should be attractive buy-and-hold picks for investors looking to benefit from a recovery in the oil sector without having to take on the risks associated with pure-play producers.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNR (Canadian National Railway Company)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/02
Date Created
2018/07/06
Author
aswalker