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Is Now the Time to Buy Canada's Top Oil Stocks?

Description

There is no short-term solution in sight for Canada's pipeline capacity shortage, which is hurting the nation's top oil stocks so badly.

Last week, Western Canadian Select (WCS) slumped below $20 a barrel, the lowest in more than two years, sending its discount to West Texas Intermediate (WTI) crude to $52 a barrel, the widest on record, according to Bloomberg.

This dismal situation doesn't help to make a case for buying Canadian oil stocks, beaten down hard by the companies' inability to ship their products quickly to refineries. But if your investment time horizon is long term, let's say five years or more, then this is a good time to look for some good value stocks.

Sooner or later, I believe this problem will be resolved and more pipelines will be built. The reason is simple: Canada can't ignore its energy sector and let it bleed for so long due to its importance to the national economy.

In the short run, there are some signs that show that some relief is coming and this wide spread between WTI and WCS probably won't last long.

Enbridge is expected to complete its Line 3 replacement line to the U.S. in late 2019, while Canadian railway companies are expected to increase their shipments of oil by 50% by the end of this year. This will be a huge relief for those operators who rely heavily on these rail networks.

In the long run, **TransCanada** expects to start construction on its Keystone XL pipeline next year, and the federal government is still pushing to restart the Trans Mountain expansion project.

Which oil stocks should you buy?

If this scenario plays out the way I'm expecting, then **Suncor Energy** (TSX:SU)(NYSE:SU) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE) are my two favourite picks.

Suncor, Canada’s second-largest oil producer, is among the few top players that have positioned themselves to take advantage when Canada’s capacity issues are resolved.

Since the 2014 oil downturn, Suncor has undertaken an aggressive cost-cutting program and expanded its asset base by buying assets from operators that decided to exit Canada. In 2017, Suncor’s cost to dig a barrel of crude oil fell to $23.80 from $37 in 2013, representing the lowest level achieved in more than a decade.

Cenovus is a riskier bet for oil bulls and has been badly hurt by the pipeline shortages. But the upside potential in this stock is also huge if it’s able to ship more oil, the discount between WTI and WCS narrows, and oil prices continue to trade in $65-75 price range.

Cenovus has signed three-year deals with Canada’s main railroads to be able to ship nearly 100,000 barrels of heavy crude from northern Alberta to refineries along the U.S. Gulf Coast.

Bottom line

At a time when energy stocks are hit hard by Canada’s pipeline shortages, long-term investors can pick some oil stocks at a great bargain. Suncor and Cenovus are two names that will rebound strongly when these bottlenecks are removed.

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