Look Beyond the Noise: 2 Top Energy Stocks Creating Real Wealth

Description

It is no secret that the Canadian energy industry continues to struggle under the enormous pressure caused by a lack of infrastructure and capacity to move the resource to the desired markets.

While Western Canada Select (WCS) typically trades at a discount to Western Texas Intermediate (WTI) oil, this differential has been exaggerated in the last year. And while some differential is to be expected, as WCS is a heavy oil, which needs to be refined before it can be used, it has risen to historically unprecedented levels. It's gone from a $30 discount last year to the current $50 per barrel, setting off a painful struggle for many Canadian oil producers.

Let's switch gears now and look beyond the noise, focusing on two Canadian energy companies that are unaffected by this issue but whose stock prices have been under pressure nonetheless, creating an opportunity for investors to buy these stocks at bargain prices.

Looking at both of these companies' latest quarterly results illustrates this very important point.

Enerplus (TSX:ERF)(NYSE:ERF)

Enerplus reported a 4% increase in production in the third quarter of 2018 — a 2-3% increase in oil and gas realized prices and a 21% increase in funds from operations.

The company's realized oil price was $83.98 per barrel in the quarter, reflecting its quality — not so bad at all.

A top-notch balance sheet, operating performance, and cash flow growth profile set it apart from its peers.

With slightly less than half of its production coming from conventional crude oil, and 90% of production coming from crude oil in general, this $3 billion oil and gas giant is set up to continue to benefit from strong oil prices.

In 2017, operating cash flow increased 72%, and so far in 2018 operating cash flow has increased

60% to $539 million.

The company’s capital plans, which are fully funded, are expected to result in strong production and cash flow growth over the next few years, and management believes, as I do, that this is not reflected in its stock price.

While the dividend yield is low, at 1%, this dividend is extremely well covered by cash flows, and the company is actively buying back shares.

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

Suncor stock is relatively immune to the widening Canadian oil differential. This is due to the fact that it has an integrated business model, which means exposure to the upstream (production) as well as downstream (refining and processing) services.

This effectively means that a large percentage of its oil production goes through its own refineries, which are exposed to Brent or WTI pricing.

Suncor reported a strong 27% increase in funds from operations in its third quarter, as the company benefited from strong downstream results.

Continued strong free cash flow generation means that Suncor is well set up to increase its dividend, and management has publicly stated its intention to do so.

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