3 Top Energy Stocks to Buy in December

Description

Canada's energy industry is once again reaching a crisis. In the past quarter, the **TSX Energy Index** has lost 22.11% of its value. In comparison, the TSX Index has only lost 6.24%. This under-performance can be explained.

Western Texas Intermediate (WTI), the bench mark crude oil price, has lost around 30% percent of its value since hitting a year high in early October. However, that is not the crux of the issue. The biggest concern is the significant spread between Western Canadian Select (WCS), otherwise known as Canadian heavy crude oil, and WTI. The spread has been widening to record levels and the WCS price has dropped 72% since July.

Why the big spread? You've been living under of rock if you haven't heard of Canada's pipeline glut. Oil companies are producing more than they can ship, which has led to increasing stockpiles and production cuts. That said, there's a way to invest in the sector by limiting your exposure to WCS. With that in mind, here are three top energy picks to buy.

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

You might be surprised, but Suncor isn't as exposed to WCS prices as one might think. The company has a very diversified asset base with limited exposure to WCS prices. The majority of its Syncrude production gave it access to approximately 106,000 barrels of oil per day (bopd) of synthetic oil in the latest quarter. Why is this a big deal? Synthetic crude commands a premium and often trades above WTI benchmark prices.

In the same vein, it also produced approximately 100,000 bopd across Europe. Oil produced from these assets are bench marked to Brent Crude, which is among the highest oil prices in the world. In the past quarter, Suncor's share price has dropped approximately 20% and is approaching oversold territory. Now is a good time to buy stock in Canada's best energy company.

Baytex Energy (TSX:BTE)(NYSE:BTE)

Historically, Baytex Energy had been a heavy oil pure play, which would have been subject to the heavy-discounted WCS prices. Over the years, however, Baytex has diversified its operations. Today, only about 25% of the company's production is Canadian heavy crude.

The majority of the company's production (45%) is tied to the higher-priced light crude and the remaining 30% is natural gas and NGLs. As such, the 41% drop in Baytex's share price over the past quarter is overdone. At under $3.00 per share, Baytex provides excellent value.

Vermillion Energy (TSX:VET)(NYSE:VET)

Vermillion's geographic model has it well positioned. In 2019, the company estimates that 33% of its production will come from Europe. As mentioned previously, oil produced in Europe is exposed to the higher Brent Crude prices.

Likewise, the company's Canadian operations are focused on light-crude production. Although the gap between Canadian light-crude and WTI has been on the rise, it's not as discounted as WCS. In the past quarter, the company has lost about 21% of its value, which is in line with the TSX Energy index. The company's balance sheet is one of the best in the industry, which has it better positioned to handle price volatility.

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