2 Top Oil Stocks With Huge Upside Potential

Description

Canada's oil economy at this point is such that it's hard to pick winners and losers. In order to control the massive supply glut, the nation's largest oil-producing province, Alberta, announced production cuts in December.

But this plan to address a glut of oil that had far exceeded pipeline capacity and contributed to a significant discount on the price of Albertan oil has not been backed by all producers. Large integrated energy companies such as **Suncor Energy** (TSX:SU)(NYSE:SU) have opposed the plan, while **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) and **Cenovus Energy** supported the move.

In this uncertain environment, investors are wondering which stocks offer the best value to hold in their long-term portfolios or if they should completely exit this trade until the situation becomes clear.

In my opinion, sticking with the larger integrated oil producers is the best way to go when it comes to investing in Canadian top oil stocks. I don't recommend completely shutting this trade, as oil and energy make up about one-third of the total market capitalization of the S&P/TSX Composite Index.

In this space, I like Suncor Energy and CNQ. Since the beginning of this year, both stocks have rebounded nicely after going through a rough patch late in the last year. Both stocks are up more than 10%, and I see further gains as oil's outlook improves.

Calgary-based Suncor is an integrated energy company with a portfolio of high-quality assets, including oil sands extraction, refining, and marketing the energy products to industrial, commercial, and retail customers.

Suncor operates one of the lowest-declining and most-enduring upstream asset bases globally. That makes it possible for the company to produce steady and stable recurring cash flow, even under modest commodity price assumptions.

As per analysts' consensus price estimate for the next 12 months, Suncor has 28% upside potential from its current price of $42 a share.

CNQ pursued a smart acquisition strategy during the last oil downturn. By taking advantage of lower oil prices and its strong balance sheet, CNQ acquired oil sands assets from **Royal Dutch Shell**
. That deal gave CNQ increased scale and sustainability from long-life assets.

While some producers withheld their expansion plans amid Canada's pipeline shortages, CNQ is going full steam ahead with its expansion. In August, the company said it was increasing its capital spending plans for the remainder of 2018 by $170 million, bringing its total for the year to $4.6 billion. The stock may rise 48% in the next 12 months, according to consensus estimates.

Bottom line

Suncor and CNQ are solid income stocks that long-term investors should consider when their prices are trading at attractive levels. After the past 12-month weakness, I find CNQ more attractive than Suncor. But you can equally divide your investment allocation to benefit from their strength.

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