Exxon Mobil Corporation (NYSE:XOM) Just Showed Why Canadian Oil Sands Stocks Are Dead

Description

Exxon Mobil (NYSE:XOM) has a long-standing reputation as a leader in the oil and gas industry. Still, it's often thought of as a conservative player, so when the company makes bold predictions, investors should listen.

On March 14, *Bloomberg* reported that Exxon "plans to reduce the cost of pumping oil in the Permian to about US$15 a barrel, a level only seen in the giant oil fields of the Middle East."

Exxon isn't the only company looking to achieve record-breaking costs in the U.S. Rival **Chevron** is targeting 900,000 barrels per day of production in the Permian Basin, while **Royal Dutch Shell** is "actively looking" for deals to build scale.

If you've been paying attention, you should see these moves as a death blow for Canadian oil sands producers like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ), **Suncor Energy**, and **Cenovus Energy** (TSX:CVE)(NYSE:CVE).

This news is transformational

Getting to US$15 per barrel for operating costs would be transformational for the oil market, particularly in North America. Few other operators could match those costs, at least at scale.

To achieve such low costs, Exxon is going to grow massively and rapidly. This year alone it wants to deploy 55 rigs in the Permian Basin. By 2024, it anticipates regional production to grow by 500%, surpassing one million barrels per day. If Chevron and Royal Dutch Shell follow suit, it would result in unprecedented volumes of North American oil being produced at record low prices.

If you own shares of oil sands companies like Canadian Natural Resources, Suncor, or Cenovus, this should make you incredibly nervous.

Oil sands are dead

I’ve long been bearish on oil sands companies. In January, I’d speculated whether Canadian Natural Resources stock could go to $0 over the next decade. With the recent news, that possibility became significantly more likely.

At its core, oil sands production is difficult to monetize. Not only do major oil sands projects face repeated delays and cost overruns (e.g., Syncrude), but they also produce low-quality output. To get this output to market, it needs to be refined more heavily than other types of oil. More refining results in higher costs.

Today, many oil sands companies need oil prices to stay high to generate a profit. For example, the most recent estimates for Cenovus show that it may need US$50 per barrel oil to survive. If bigger competitors increase North American output by 500% or more at prices as low as US$15 per barrel, it’s tough to see oil sands companies competing.

Even worse, new international regulations could instantly cripple up to 20% of all oil sands production.

In 10 months, marine regulations will reduce the sulfur content in shipping fuel from 3.5% to 0.5%. Roughly 600,000 barrels per day of oil sands production would be rendered uneconomical. As the deadline approaches for the new regulations, it’s becoming increasingly clear that significant portions of oil sands projects simply won’t survive the next decade.

Don’t own these stocks

Oil sands companies have much thinner margins than their more traditional peers. That means if oil prices spike, their profits would compound quickly, likely pushing their stocks higher. Those gains will likely prove ephemeral, however, as the high cost of production simply doesn’t fit in with a world of US$15-per-barrel competition.

If you own stock in Canadian Natural Resources, Suncor Energy, or Cenovus, you may want to think twice.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:CVE (Cenovus Energy Inc.)
3. NYSE:XOM (Exxon Mobil Corporation)
4. TSX:CNQ (Canadian Natural Resources Limited)
5. TSX:CVE (Cenovus Energy Inc.)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date
2025/08/17
Date Created
2019/03/16
Author
rvanzo