3 Oil Stocks Worth Buying in 2019

Description

It's a tough time to own oil stocks. Over the past 12 months, many companies have seen their share prices decline by more than 50%.

Lately, however, signs are pointing up.

In January, global oil prices fell to just US$45 per barrel at writing. Over the last few months, prices have popped above US$60 per barrel.

While we're not out of the woods yet, many investors are dipping their toes back into oil stocks. Be careful to choose wisely, as the industry remains rife with risks.

Here are three oil stock worth buying this year. Pay attention: there's a pattern to the following picks.

Imperial Oil (TSX:IMO)(NYSE:IMO)

From early October to late December, oil prices fell from US$75 per barrel to US$45 per barrel, a 40% decline. Over the same period, Imperial oil stock fell just 20%.

The company's secret weapon was its integrated business model.

Imperial Oil has been in business since 1880, which has given it plenty of time to acquire assets and diversify its revenue streams. As an integrated energy company, Imperial controls the entire value chain, including exploration, production, refining, and marketing.

Controlling the entire value chain has some huge advantages. Most important, it insulates profits during times of volatility.

For example, refining margins often run counter-cyclical to oil prices. So, when oil prices fall, refining margins often rise. That's exactly what happened late last year, leading to Imperial's outperformance.

If you're going to take a chance and buy beaten-down Canadian energy stocks, stick with integrated companies like Imperial.

Husky Energy (TSX:HSE)

Imperial isn't the only integrated oil company in town.

Despite collapsing oil prices last year, Husky was able to remain free cash flow positive thanks to its integrated approach.

On a recent quarterly conference call, the company's CEO specifically highlighted that despite difficult conditions, its "largest benefit was from U.S. refining margins."

"We can capture value at any point along the Upstream-Downstream chain, resulting in global pricing for most of our production," he concluded.

With a slew of complementary businesses from thermal and offshore to refining and pipelines, Husky has proven capable of offsetting volatility in any one segment.

Shares trade at less than 10 times trailing earnings, suggesting the market has thrown Husky stock into the bargain bin regardless of its ability to withstand industry shocks.

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

Suncor is Warren Buffett's favourite company on this list. How do I know? Because he bought 10.8 million shares earlier this year—roughly 0.7% of the company.

When he made the purchase, I highlighted Suncor's integrated model as the key reason Buffett felt comfortable jumping in. Other analysts followed up with similar opinions.

"Suncor [has] a strong downstream operation, which financially benefits from oil bottlenecks and that is unique to Suncor, which you can't get with many other companies in the energy space," highlighted a portfolio manager at **Manulife**.

With the ability to refine and ship most of its production, Suncor isn't exposed to many of the transportation bottlenecks plaguing the rest of the Canadian energy sector. In many ways, it controls its own future, just as long as global prices play along.

Suncor doesn't look as cheap as Husky or Imperial, and the stock has run up a bit from Buffett's purchase point, but its business model should prove as resilient as any energy stock on the market.

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