



## Why Canadian Crude Will Always Be on Sale

### Description

In late 2018, the price of Canadian heavy crude, known as Western Canadian Select (WCS), plunged to record lows, despite the North American benchmark West Texas Intermediate (WTI) firming. That saw extremely wide price differentials for Canadian crude benchmarks, which were causing many [oil sands operators](#), notably upstream producers, to pump heavy crude at a loss.

It was the extreme distress of the oil sands industry coupled with a significant shortfall in oil royalties for Alberta which saw the provincial government introduce mandatory production cuts to drain local oil inventories and bolster the price of WCS. This was met with immediate success, with the price of WCS more than tripling virtually overnight.

Nonetheless, this outcome was not appreciated by all oil sands operators. Integrated energy giants **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) and **Imperial Oil** spoke out against the cuts, while there were a range of unintended side effects. Among the most significant was that crude-by-rail shipments became uneconomic, causing a sharp decline in the volume of barrels being shipped.

### Production cuts not as successful as they appear

According to National Energy Board data, February 2019 oil shipments by rail fell to a low not seen since 2017 of 130,000 barrels daily; while that number had risen to 236,000 barrels daily for April, it was still a long way short of the 354,000 barrels reported for December 2018.

Canadian oil inventories have remained stubbornly high regardless of the cuts. By the end of April 2019, WCS stocks had hit a record level of 37 million barrels, and despite falling 18% by the end of June 19, they still stand at a worrying 30.5 million barrels — levels higher than anticipated.

The core problem is the lack of pipeline exit capacity, which is crimping access to key U.S. Midwest refining markets, where refineries are predominantly configured to process heavy crude. This has been exacerbated by **Enbridge's** Line 3 Replacement Program being delayed by one year because of U.S. permitting issues.

It also takes a considerable amount of time, even years, to plan and gain regulatory approval as well as funding to build new pipelines. This means that it is highly unlikely that the notable shortage of pipeline capacity can be addressed in a timely manner.

If the cuts come to an end, which is planned for December 31, 2019, the resulting higher production combined with any significant increase in transportation capacity means that inventories will build to the point where they weigh heavily on WCS prices once again.

## This oil major is poised to profit

While this is all bad news for intermediate downstream heavy oil producers like **MEG Energy**, which lack refining capacity, it will be a boon for Suncor.

You see, Suncor reported some impressive numbers, despite the price of WCS falling to record lows towards the end of 2018. The integrated oil major stepped up refinery utilization, which saw it process a record 467,900 barrels daily for the quarter and generate a refining margin of \$41.50 per barrel, which was a very impressive 30% greater than a year earlier.

That can be attributed to Suncor's significant refining capacity, which allows it to process over 60% of its oil sands production. This means that it can benefit from a wide differential between Canadian oil benchmarks and WTI because feedstock for its refineries is cheaper while higher oil means it can command significantly higher prices of refined petroleum products.

## Foolish takeaway

Suncor remains a [top pick](#) for investors seeking to boost their exposure to higher oil, despite the risks and uncertainty engulfing the energy patch. It has proven that it can operate profitably, even if WCS prices crash by virtue of its integrated operations. While investors wait for Suncor stock to appreciate, they will be rewarded by its sustainable dividend, which yields a juicy 4%.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:SU (Suncor Energy Inc.)
2. TSX:SU (Suncor Energy Inc.)

### PARTNER-FEEDS

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

**Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**Date**

2025/09/15

**Date Created**

2019/07/11

**Author**

mattdsmith

default watermark

default watermark