Investors: This Hidden Factor Just Gave Oil Sands Stocks a Big Boost

Description

After years of bad news, Canada's largest oil sands operators finally got some good news — and it's likely most investors haven't even realized what's going on.

Recently-elected Alberta Premier Jason Kenney pledged to slowly cut corporate taxes in the province from 12% all the way down to 8% over the next four years, giving Alberta's largest energy companies a big boost.

Let's take a closer look at how much this change impacted **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) and **Husky Energy Inc.** (TSX:HSE).

Suncor

Suncor reported its quarterly results on Thursday morning; highlights included a 10% increase in funds from operations on a year-over-year basis to $3 billion (a new quarterly record), $1.3 billion in operating earnings, and nearly $1.2 billion in capital returned to shareholders via share buybacks and the quarterly dividend.

These factors were nice, but they paled in comparison to the massive one-time boost from Alberta's tax reform. Suncor recorded a $1.116 billion net tax benefit, which boosted the bottom line to $1.74 per share. All in all, it was an excellent quarter.

Despite these results, Suncor's shares have sunk by more than 10% over the last three months. Investors who get in today are buying at a lower level than Warren Buffett paid a few months ago.

Cenovus Energy

Cenovus Energy also reported its second-quarter earnings on Thursday. Investors were a little disappointed with the results; the stock fell by some 2.5% that day.

On first glance, the results looked pretty good. Cash from operating activities was up 139% to $1.28 billion on substantially higher oil prices compared to the year before.

Operating income improved to a profit of $0.22 per share versus a $0.24 per share loss in the same quarter in 2018. The company announced continued progress in getting its debt under control, repurchasing more than US$800 million in unsecured notes in the quarter and US$1.2 billion thus far in 2019.

Cenovus also got a big bump from Alberta's new corporate tax program, booking a gain of $658 million. That's pretty substantial for a company with a market cap of right around $15 billion.

Husky Energy

Husky Energy disappointed investors with its second-quarter earnings. Shares fell nearly 10% in the two trading days since the numbers were released to the market.

Weaker numbers in the quarter were primarily because of unscheduled maintenance, which hampered production. Upstream production averaged 268,400 barrels per day in the quarter, versus nearly 300,000 barrels in the same quarter last year.

Funds from operations were $0.80 per share compared to $1.20 per share in the same quarter in 2018. Downstream results were also a little less than expected.

Husky gained $233 million from Alberta's new corporate tax rates, which boosted the company's bottom line for the quarter to $370 million.

Energy investors, take note

Despite the nice bonus from the new corporate tax rules in Alberta, shares of all three of these oil giants are down significantly over the last three months. What gives?

Simply put, the impact of this unexpected windfall isn't enough to offset weakness in the overall crude oil market. The price of Western Canadian Select, the benchmark price for bitumen, fell from a high of $54 per barrel in April to under $44 today. Unless things improve, third-quarter results will be weaker.

At the same time, I'd argue these energy stocks are still ridiculously cheap. Husky is on pace to generate $3.5 billion in funds flow in 2019 with a market cap of just over $10 billion.

Suncor isn't quite as attractive, but it has the advantage of possessing a pristine balance sheet, a rising dividend, and some of the best assets in the whole region.

The bottom line

Collectively, Alberta's three largest energy producers saw their tax situations dramatically improve, collectively booking a gain of more than $2 billion. And yet, their share prices have all moved down over the last month. This doesn't make much sense to me.

The opportunity exists for investors to load up on these temporarily beaten-up shares. The tax break is just the cherry on top.

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Date
2025/08/19
Date Created
2019/07/29
Author
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