Oil Is Soaring: Should You Buy These 2 Stocks?

Description

Seeing their biggest spike in a decade, at some points nearing 20%, oil prices are soaring after the weekend attack on the Saudi oil production sites. Headlines have been near-apocalyptic in tone, with pundits declaring that higher oil will have a devastating effect on the world economy if it proves to be protracted, while others have pointed out that an escalation of tensions in the Middle East could see oil prices rise higher still.

Oil stocks are rocketing

Up by more than 9% over the last five days at the time of writing, **Suncor** (TSX:SU)(NYSE:SU) is seeing a rush of interest, as oil investors revel in oil's sudden rise. Oil has been flat for a while, and ebullient energy investors have kickstarted the week with hair-trigger bullishness. Given higher oil prices and an array of discounted stocks, the whole sector is suddenly bouncing with stocks like **Vermilion Energy** up by a massive 17%.

While there are opportunities to sell this week as oil prices and affected stocks go up, the potential for further bottlenecks, or a protraction of the current one, could add further value to black gold. There are efforts to increase supplies, of course, but the combination of OPEC's price stimulation and ongoing localized tensions could outweigh them. However, a more impactful factor could be the global economic outlook, since weak demand could keep oil prices depressed over the long term.

Two stocks that could fare well with higher oil

In terms of dividends, Suncor's yield of 4.16% is perfectly serviceable, especially in so integral an industry. The stock is, and has been since the early 90s, one of the mainstays of the TSX for income investors seeking stable payments. Traders looking to make a quick buck also have an opportunity now to jump on the upside train, as Suncor's share price will likely improve conversely as the oil situation worsens.

Speaking of trains, investors don't yet appear to be seeing the link (excuse the pun) between higher oil and **Canadian National Railway's** (TSX:CNR)(NYSE:CNI) oil-by-rail initiative. A key to its negative start to the week could lie a report by **Moody's** that foresees a decline in coal hitting rail operators hard; a potential $5 billion could be wiped from the industry thanks to a drop in coal demand, with around 7% a year lost between now and 2030, the report predicts.

While the U.S. coal industry is facing lower demand as power plants switch to gas and weaker export prices, the effect on CN Rail's bottom line remains to be seen. The rail operator is still one of Canada's safest stocks, is linked integrally with practically every major Canadian industry, and pays a very stable dividend that currently yields 1.88%, and offers key oil exposure through its lucrative crude-by-rail program.

The bottom line

While higher oil is likely to have a depressive effect on the global economy if the situation persists for too long, there is some upside to harvest in the short term from buoyant oil-related stocks. CN Rail, meanwhile, is a sturdy play for oil exposure due to its oil-by-rail initiative, while also being a solidly diversified dividend-paying stock.

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