Canadian Oil Stocks: The Opportunity of a Lifetime?

Description

Canadian oil stocks have become downright toxic this year.

Many oil sands operators were barely hanging in when oil prices fell off a cliff in 2014. With 2020 delivering a “one-two punch” to the gut of the entire oil industry (demand shock from the coronavirus pandemic and the Saudi-Russia oil price war), we could be on the cusp of mass bankruptcies in the Albertan oil sands.

Most people are incredibly bearish on anything energy-related these days. Some of the bigger bears don’t think it’s far-fetched to see oil firms throwing in the towel on the oil sands entirely.

Have Canadian oil stocks become uninvestible?

Mad Money’s Jim Cramer has previously referred to the Canadian oil stocks as “the new tobacco,” also noting that they’re in the “death knell phase.” There’s no question his comments were alarming, and they may very well be true for a majority of the oil firms out there.

However, I’m still in the belief that there exists a price where every stock becomes a buy. And I still think there are investible opportunities in the Canadian energy space with West Texas Intermediate (WTI) at US$20 for those who pick their spots very carefully.

That means investing in firms with best-in-class fundamentals at bargain-basement prices and not trying to be a hero with poorly capitalized firms that are difficult to value, with no other plans to weather out the storm of lower oil prices other than hoping for it to go higher.

Most Canadian oil stocks are nothing more than a speculation at these depths. As such, buying a battered oil stock and praying for higher oil prices is not a suitable investment strategy and could cause you to lose both your shirt and your pants.

Many junior players in the oil patch are under an unfathomable amount of pressure right now. A considerable amount of them will stand to go under as they scramble to delay their imminent insolvency. I'd stay away from such poorly capitalized small-cap players in the space, as they may very well be uninvestible.

Moreover, it's pretty much impossible to form an intrinsic value estimate on them anyways given the massive uncertainties and their high risk of bankruptcy.

While it seems foolish (that's a lower-case "f") to place a bet on anything fossil fuel-related after the latest implosion in oil prices, there is deep value in some of the fundamentally sound behemoths in the space.

Canadian Oil stocks: Strong balance sheets and robust cash flows are a must

There are many high-quality oil firms such as **Suncor Energy** (TSX:SU)(NYSE:SU) that are going to survive the onslaught.

The company is head and shoulders above its peers in the oil patch because of its strong balance sheet, stable integrated cash flow stream, and exceptional managers who know how to navigate the rough waters.

Suncor's managers will do everything in their power to protect their dividends and insulate shareholders from an industry environment that can only be described as cut-throat.

Foolish takeaway

With such well-capitalized large-cap Canadian oil stocks like Suncor, you can place a bet without worrying about losing it your entire investment. But that doesn't mean you can't face steep declines as the primary combatants in the oil price war look to cut their noses off to spite their faces.

Suncor sports an 8.3%-yielding dividend that looks safe at this juncture.

The stock trades at 0.7 book and 3.2 times EV/EBITDA, making the Warren Buffett play a ridiculously undervalued stock that could easily triple if the oil price war comes to a peaceful resolution.

Moreover, you're getting paid handsomely while you wait for the waters to calm, something that's just not possible with some of the junior players in the space that may not live long enough to see oil bounce back to US$40-50.

Stay hungry. Stay Foolish.

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