President Trump’s Oil Tariffs Could Send Canadian Energy Stocks Skyrocketing

Description

U.S. President Donald Trump appears committed to protecting America’s energy independence and the jobs of energy workers following the breakdown of OPEC+ and the ensuing plunge in oil prices. He’s no stranger to tariffs and could look to apply them on “oil coming from the outside” to alleviate the oil pressure that’s served to exacerbate the coronavirus (COVID-19) crash.

Trump didn’t go into too much detail on whether Canada will be omitted from such tariffs. Canadian heavy oil producers are already under an unfathomable amount of pressure, and U.S. refineries stand to benefit from heavy crude coming north of the border.

Relief for oil prices could be on the horizon

In any case, the Saudi-Russia oil price war may be closer to an end than investors initially thought. In a prior piece, I’d noted the possibility that Trump would get involved in the oil feud once the coronavirus had been dealt with to bring oil prices back to levels that would be to the benefit of North American oil producers.

Operators in the Albertan oil patch stood to be among the most negatively affected by the ridiculously low oil price environment. The wide discount on WCS (Western Canadian Select), a lack of pipeline capacity, and the elevated expenses involved with oil sands projects threatened the entire economics of heavy oil producers. In the event of a sudden upside surge in oil prices, I see Canadian energy stocks as having the most upside.

The stakes are still high at these depths

Suncor Energy (TSX:SU)(NYSE:SU) has a healthy balance sheet and robust cash flows from integrated operations. But not even being the best-in-breed player in the Albertan oil patch was enough to keep the stock afloat when WTI fell to US$20.

Suncor’s growth will be stunted in a “lower-for-longer” environment, and although it’s a destined survivor with its well-covered dividend, not even a vote of confidence from Warren Buffett could boost investor confidence at these depths unless oil pops.

Sentiment on oil hasn't been this low in decades. And while the continued rise of ESG (environmental, social, and governance) investing could act as yet another headwind for Canadian energy stocks, I think it makes sense to consider the generationally cheap multiples to be had with some of the more premier players in the space.

Get paid to wait

Investing in Canadian energy doesn't have to be a reckless endeavour, not if you get paid to wait for the tides to turn. Warren Buffett is pretty horrible at timing the oil markets, as demonstrated by his Suncor investment. Exogenous events are impossible to predict. Nobody could have seen demand fall off a cliff as a result of the coronavirus, nor the breakdown of OPEC+.

For many, WTI at US$20 was unthinkable, but it happened, and one has to think that oil's rock bottom is close, if it's not here already.

Simply put, I see today's oil prices as unsustainably low. As President Trump takes action with tariffs, we could witness a sudden surge in oil prices and Canadian oil stocks could pop, and the window of opportunity to lock in Suncor's massive yield could quickly come to a close.

Foolish takeaway

The risk/reward has never looked greater in Suncor, one of the few Canadian energy stocks that remain investible at this juncture. The 7.8%-yielding dividend is well covered by cash flows and will be a generous incentive to buy the stock and completely forget about it over the next five years and beyond.

Moreover, Suncor stock is trading at unfathomably cheap multiples today — at 3.6 times EV/EBITDA and 0.84 times book. These bottom-of-the-barrel valuations lead to me to believe that there's a margin of safety to be had here, even with the pressure.

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