Canadian Oil Stocks: A Once-in-a-Lifetime Buying Opportunity

Description

The coronavirus pandemic has made Canadian oil stocks seem downright toxic. The lockdown-induced demand shock and the crumbling of OPEC+ acted as a one-two gut punch to an already ailing Albertan oil patch. After the blow to the gut comes the global oil glut.

With a continuously growing glut and storage shortages, oil prices made an unprecedented tumble into negative territory for the first time in history this month. Oil quickly bounced back to the positive territory, trading in the single digits before somewhat stabilizing in the low to mid-teens.

Canadian oil stocks and the crude reality

As it stands now, many oil companies are scrambling to deal with the crude reality of the situation. The tides have gone out in the oil patch, and although nothing is stopping oil prices from going negative again, I think value-conscious investors ought to consider getting skin in the game now that pessimism on fossil fuels is arguably the greatest it's ever been.

Just a few weeks ago, many people probably didn't even know that negative commodity prices were even possible!

When we got hit with negative oil prices, there was likely much confusion, as there was fear surrounding the ordeal. As I mentioned in a prior piece, however, the negative move was unsustainable and wasn't as alarming as the headlines made it seem at the time.

Heck, most of the damage at the time, I thought, had already been done to Canadian oil stocks, which were already pummeled into the abyss over unprecedented exogenous events. That's a significant reason why I viewed the cream-of-the-crop players in the Albertan oil patch like **Suncor Energy** (TSX:SU)(NYSE:SU) as generational buys, despite the growing possibility of an era of "nearly free" oil.

Canadian oil stocks could be on the cusp of an unprecedented

comeback

On Wednesday, Canadian oil stocks staged a massive comeback, with Suncor blasting off 13.4% in conjunction with the price of WTI breaking through the US$15 mark on government data that showed U.S. oil inventories were growing at a slower pace than initially expected. With the global economy on the cusp of re-opening, the demand for oil could begin to stage a recovery, and we could witness a sustained move into the US$20 levels.

While the abruptness of an oil rebound is difficult to project, investors would be better served by looking to firms with healthy cash flows and stellar balance sheets to avoid the risk of bankruptcy in a lower-for-longer oil price environment that will undoubtedly threaten the economics of many heavy crude producers in the Albertan oil sands.

Warren Buffett’s preferred way to bet on the Canadian oil patch is Suncor Energy, and it’s not hard to see why. The company has stellar integrated operations and one of the healthiest balance sheets in the oil sands, with an optimal 0.43 debt-to-equity ratio and $2 billion worth of cash, cash equivalents, and short-term investments. The company is destined to be a survivor, even if oil prices were to ever flirt with the negatives again.

Moreover, Suncor’s dividend, which I view as more than safe, is enough of an incentive for an investor to hold on through this violent storm.

Foolish takeaway

After Suncor’s 76% bounce off the March bottom, the dividend yield is now more modest at 7%, but the Canadian oil stock is still worth picking up if you’re a long-term income investor who wants to invest alongside Buffett with a better cost basis!

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