



## Canadian Oil Stocks: Is There Any Hope in 2020?

### Description

It has been a wild ride for Canadian oil stocks in 2020. We have seen everything from optimism in early February to absolute despair in March and April (negative oil futures pricing). The fact is, it has just been outright difficult to invest in Canadian oil stocks for the past few years.

As the world recovers from the COVID-19 crisis, I think there could be a nice recovery in the sector. Yet Canadian oil stocks continue to face long-term headwinds that oil investors need to consider. Recent news headlines have been particularly worrying for Canadian oil stocks.

## Norway's oil fund doesn't want Canadian oil stocks

To begin, a few weeks ago, Norway's sovereign oil/wealth fund announced it had dumped its entire stake in Canadian oil sands producers because of "unacceptable greenhouse gas emissions."

This seems a little hypocritical considering 62% of Norway's exports and 18% of its GDP are derived from emissions-producing offshore oil. However, it illustrates that institutional capital is increasingly shying away from Canadian oil stocks.

It doesn't matter that the assumptions to divest Canadian oil stocks are either arrogant or ignorant. That capital is gone, and it probably is not coming back.

## Joe Biden won't support Canadian oil sands

Last week, U.S. presidential candidate [Joe Biden](#) announced that if elected, he would quash **TC Energy's** Keystone XL pipeline. His premise is similar to Norway's: "Tar sands" are dirty.

Unfortunately, Canada's inability to build pipelines in and out of the country has also hindered the oil sector. In fact, **Enbridge's** Line 3 pipeline project faced new opposition last week, as legislators challenged its regulatory process. The fact is, the Canadian oil sector is landlocked and has restricted pricing power. It desperately needs pipeline capacity, and it cannot seem to get any built.

These new political risks only add further uncertainty and risk for the industry.

## Canadian oil stocks face more risks than ever

Canadian oil producers need to be played as a trade and not an investment. There are just too many risks to be able to predict the long-term viability of the sector.

Many energy stocks are extremely cheap and have massive rebound potential. Yet, there are rising and compounding risks that could permanently challenge the sector. If you are going to invest in Canadian oil stocks, you need to be more cautious and vigilant than ever.

## How to invest in Canadian energy

Here are a few important thoughts about owning Canadian oil stocks in your investment portfolio.

Firstly, balance the risks of oil stocks by [owning an equal or higher weighting in renewable energy stocks](#). ESG investing is popular and capital is increasingly moving from oil to renewables. Canadian companies like **Boralex**, **Northland Power**, and **Algonquin Power** are great renewable stocks. They produce very stable and growing cash flows that pay between 2% and 5% yields. They are good foundations to any portfolio.

Secondly, get oil exposure through pipelines and oil infrastructure. Pipeline companies like Enbridge and **Pembina Pipeline** have highly contracted cash flows and pay very safe +7% dividends. These businesses have very little exposure to commodity pricing but have significant upside if oil prices revert to historical norms. You'll get the commodity upside, without the commodity-related operational risk.

Lastly, own a few of the best quality Canadian oil producers. Get natural gas exposure through a diversified producer like **Tourmaline**. Buy geographic diversity through a debt-free Colombian oil producer like **Parex Resources**. If you don't mind oil sands, then **Canadian Natural Resources** and **Suncor** are solid bets for low-cost production, long-life reserves, and integrated operations.

## The bottom line

Canadian oil stocks are facing significant external pressure. I still think there is hope to make money in the sector. Just be cautious where you invest. Choose only the best and balance your risks by owning a diversified investment portfolio.

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