



Oil Just Got Costlier: 3 Canadian Oil Stocks to Buy Under \$50

Description

Oil stocks are surging as the unrest in oil-rich countries gets aggressive. Saudi Arabia and Russia are the world's second and third-largest [oil producers](#). The Russia-Ukraine war has already created supply uncertainty and pushed oil prices above US\$100/barrel.

On March 26, **Saudi Aramco**'s fuel distribution facility in Jeddah suffered a missile attack from Iran-backed Houthi rebels from Yemen. This pushed up the Brent crude price to \$120.70/barrel and the WTI crude price to US\$113.90/barrel.

Oil gets costlier

This is not the first time Aramco has come under attack. In September 2019, strikes impacted about half of the Saudi oil production when missiles hit two of its processing units. At that time, the Brent benchmark crude price surged to US\$67.68/barrel for a brief period. But the recent attack comes when energy prices are sky high because of the Ukraine war. The U.S. and Europe imposed sanctions on the world's third-largest oil producer, Russia. They are now looking for alternatives, and Iran and Saudi Arabia are their closest bet.

If Saudi Arabia and Iran are affected by the unrest from rebels, it could compromise the world oil supply. Saudi Arabia and Russia together produced 23% of world oil in 2020.

A source from Saudi Ministry of Energy said the country "will not bear any responsibility for any shortage of oil supplies to global markets" because of these attacks. It warned of an "impact on the Kingdom's production capacity and its ability to fulfill its obligations to global markets, which undoubtedly threatens the security and stability of energy supplies to global markets."

When the [Russia-Ukraine war](#) escalated, J.P. Morgan Research [projected](#) a Brent oil price between US\$100 and US\$185/barrel, factoring in more severe sanctions. Any impact on Saudi Arabia's oil production capacity could make oil even costlier.

Three Canadian stocks under \$50

Oil stocks are already trading near their 52-weeks high. In a normal scenario, I would not buy a cyclical stock at its high. But the supply disruption caused by the war could take some time to cool. You could leverage this opportunity and earn extra money for gasoline.

Canada is at an advantage because of its oil sands reserve and three oil stocks will benefit from the supply crunch.

- **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#))
- **Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#))
- **Crescent Point Energy** ([TSX:CPG](#))([NYSE:CPG](#))

All three are oil and gas companies in Canada. During the pandemic, the three companies suffered losses. At that time, Suncor reduced its production cost per barrel, and Cenovus [acquired](#) Husky Energy to become the third-largest integrated oil company in Canada. It reduced its free fund flow break-even at a WTI price of US\$36/barrel. When oil prices surged, the three companies benefitted as they could sell their oil at a higher price.

Suncor and Crescent Point Energy shared their windfall gains with shareholders by increasing [dividends](#) by 100% and 50%, respectively. The two stocks surged 14.5% and 18%, respectively, since the Russia-Ukraine war broke out on February 24. Cenovus used the free cash flow to repay the debt it took to buy Husky. Cyclical companies avoid having too much debt on their balance sheet because it could become a headwind during a downturn. Hence, Cenovus deleveraging acted in shareholders' favour and the stock surged.

Should you buy oil stocks now?

With oil prices showing no signs of retreat anytime soon, oil stocks are a good investment even at this juncture. The Fed interest rate hike will not impact oil prices. It could make risk-averse investors buy oil stocks in the hopes of high dividends. This is a good time to buy Canadian oil stocks as the country is not directly involved in the international war.

Canada can offer a sense of security to investors while allowing them to benefit from a supply crunch.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VRN (Veren)
4. TSX:CVE (Cenovus Energy Inc.)
5. TSX:SU (Suncor Energy Inc.)

6. TSX:VRN (Veren Inc.)

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