Why Oil Stocks in Canada Are Popping

Description

Oil stocks are surging to greater heights, as significant unrest surrounding oil-rich countries becomes worse. Saudi Arabia is the world's second-largest oil-producing nation, and Russia is the third.

The breakout of war between Russia and Ukraine has led to several sanctions on the third-largest oil producer, impacting global supplies. On March 26, 2022, **Saudi Aramco's** fuel-distribution facility in Jeddah was attacked by Houthi rebels from Yemen, causing disruptions in its energy operations.

Rising geopolitical tensions through situations like these increase the risks of market downturns. Commodities like crude oil become costlier due to the disparity between supply and demand. More expensive energy prices mean potentially greater profit margins for companies producing the commodity.

TSX energy stocks are outperforming the broader market

Crude oil prices were already increasing due to supply issues. Crude oil prices managed to surge from US$76 per barrel at the end of 2021 to US$112 a few weeks ago. The war between Russia and Ukraine aggravated an already problematic situation. Combined with issues plaguing the energy industry in Saudi Arabia, oil prices managed to rise to record levels.

Canadian companies did not utilize the changing situation to boost production. Instead, the companies relied on higher energy prices to improve their balance sheets, which suffered greatly during the onset of COVID-19. A significant portion of the profits generated by Canadian energy companies like **Suncor Energy** (TSX:SU)(NYSE:SU) has gone towards reducing debt burdens.

Suncor is the country's largest oil sands operator, and it managed to repay roughly $3.6 billion of its debt in 2021 due to the surge in oil prices. The integrated energy company's profits have increased due to oil price hikes. The company's integrated business model allows it to generate profits from various oil-related business verticals.

The company extracts, refines, and markets crude oil. It also owns a network of gas stations throughout the country under the banner of Petro-Canada, selling gasoline directly to end consumers. This business model allows Suncor to generate greater cash flows when oil prices are higher.

With its initial focus on reducing debt, the $59.33 billion market capitalization energy giant has drastically improved its financial position.

Foolish takeaway

As a commodity-driven business, the oil and gas sector is vulnerable to swings in oil prices. This fact led to significant difficulties for energy companies across the board in the latter part of 2019 and throughout 2020. However, the sudden surge in demand for oil in 2021 that has continued this year has led to a massive improvement in profits for energy companies.

There are increasing calls by global governments to make efforts to reduce oil prices. However, there appears to be no reasonable effort being played by OPEC countries to fulfill the request to bring oil prices down. Canada is not the largest oil producer worldwide, but it holds a significant place in the industry, exporting most of its energy products across the border to the U.S.

Canadian oil stocks could stand to generate significant long-term growth with the backing of strong commodity prices. Suncor stock trades for $41.12 per share at writing, and it boasts a juicy 4.09% dividend yield. It could be a viable investment to consider if you are bullish on the strength of the energy sector.

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