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Oil Bulls Who Stayed Course Through Free-Fall Reap Rewards

By Michael Bellusci
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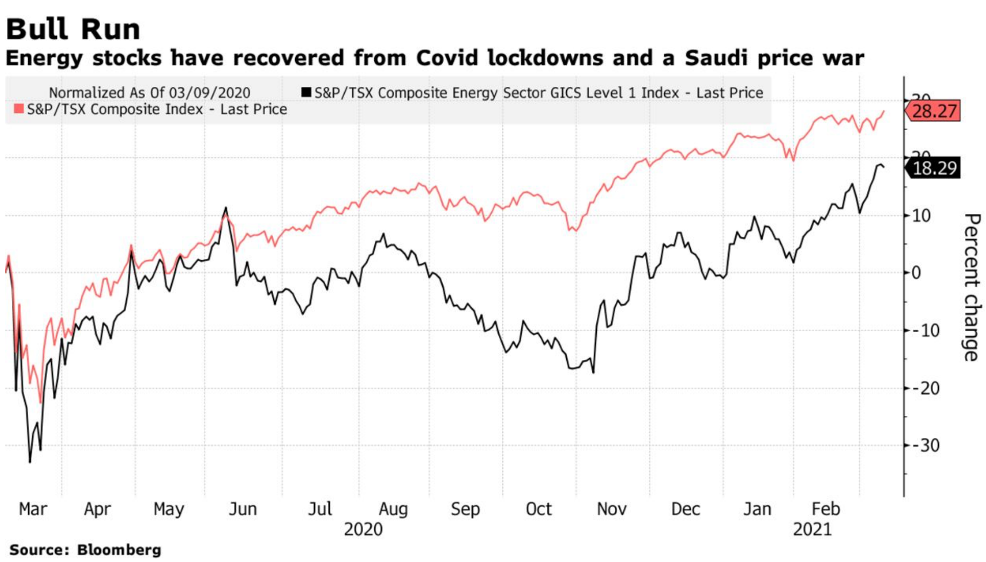
- Investors confident that recovery will absorb oversupply
- Improving pipeline capacity in Canada attracts fund managers

An oil glut coupled with a virus-induced free-fall in global demand sent energyy stocks spiraling a year ago. Now, as the world begins to recover from the pandemic, oil bulls who stayed the course are enjoying big returns.
The move is turning some fund managers' gaze back to Canada, where oil producers were clobbered a year ago, with even blue-chip names such as Suncor Enery Inc. losing two-thirds of their value in a matter of weeks.

Improved Canadian oil pricing and fewer worries about pipeline capacity has funds such as Bison Interests LLC redeploying capital away from U.S. shale and into Canadian energyy companies. The Houston- based fund, which has risen about 90% this year, is bullish on names such as Tamarack Valley Enery Ltd. that have exposure to Alberta's Clearwater oil play.

Josh Young, Bison's chief investment officer, said the economics of the region are better than the Permian Basin. "It's probably the most economic onshore resource play," he said. Bison seeks out disconnects between stock prices and the intrinsic value of a company and was able to deploy capital during the downturn, he said.



The OPEC+ decision last week to keep output largely unchanged, along with an attack on the world's largest crude terminal in Saudi Arabia, briefly sent Brent oil futures above $71 a barrel early Monday. Futures in New York sagged on Tuesday, with West Texas Intermediate crude for April trading at $63.76 a barrel as of 4:15 p.m. in New York.

Investors are increasingly confident that any oversupply will be absorbed by soaring demand as more people are vaccinated and life slowly returns to normal.

"The fear of peak demand is leading us to the reality of peak supply," said Eric Nuttall, senior portfolio manager of the Ninepoint Partners LP energyy fund in Toronto, which has gained about 70% this year.

There was less planning involved in last year's oversupply. Last March, coronavirus lockdowns began in western economies just as Saudi Arabia began flooding the market with oil in an all-out price war. Enery equities plummeted: At one point Canada's energyy index was down 53% for the year. It's risen 19% to start 2021, with Vermilion Enery Inc. being among a handful of stocks that have risen over 60% during the same period.

Then in January, in one of his first acts as U.S. president, Joe Biden canceled the Keystone XL oil pipeline, the type of move that would normally be a major setback for the patch. But with construction under way on other pipelines, the Canadian portion of Enbridge Inc.'s Line 3 online, and a drive for profitability through spending cuts, bulls have sent signals that this cycle may be different from its predecessors.

Nuttall, whose holdings include MEG Enery Corp. and NuVista Enery Ltd., says he thinks Canadian energyy stocks have more upside versus those south of the border, where a new Biden administration is more hostile to fossil fuels. At the same time, Canadian pipeline capacity is improving despite the Keystone XL decision. Nuttall said that small- to mid-cap shares have aided his fund's performance this year.

Generalist investors, who seek to own assets in a wide range of industries, have avoided oil and gas stocks because of price volatility over the last few years. Stabilizing prices could change that equation, Nuttall said, as margins increase and as other equities become overvalued.

"We've selectively added energyy" as energyy companies cut spending amid rising demand, said David Picton, chief executive officer of Toronto-based Picton Mahoney Asset Management, which managed about C$8.9 billion ($7 billion) in client assets at end of February.

In an interview, Picton called those investments "more of a trading call" because he's not convinced that energyy is a good long-term bet.

— With assistance by Esteban Duarte, and Robert Tuttle