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Someone changed the channel: suddenly, there's bulls everywhere

Markets have stormed back to life, even if the economy hasn't

If you wanted another bubble to invest in, congrats.

You've just gotten your wish. Suddenly, it feels like the first half of 2008, not 2009. It's deja vu all over again.

Oil prices are on a roll, soaring Monday to a seven-month high of more than \$68 US a barrel.

The loonie is skyrocketing. Metals prices are rebounding, and the stock markets are on wheels.

Recession? What recession? That's just so yesterday.

OK, so the news is hardly sunny all around. The auto industry is on life support, millions of Americans are out of work, government deficits are sky high, the greenback is sagging, and U.S. mortgage rates are rising, even as house prices in Obama Land continue to crumble.

No matter. Someone just changed the channel, so who am I to argue? We're now instructed to ignore such trifling concerns. Oh joy.

The bulls are back in charge. Investors are piling back into stocks, and dumping U.S. treasuries — the bear market's refuge.

As was the case a year ago, when oil prices were roaring toward a July peak of \$147 US a barrel, energy stocks are leading the parade.

Since the Toronto Stock Exchange's benchmark index touched its bear market low in March, it has rebounded by an astonishing 41.7 per cent, capped by Monday's 234-point gain.

Energy stocks have fared even better. The TSX's lead energy index has soared by 64.6 per cent since it hit bottom in the first quarter, and the TSX's energy trust index has gained 56.2 per cent.

Some stocks have posted even fatter returns.

Shares of Suncor, Nexen, Talisman, Canadian Natural Resources and Petro-Canada have more than doubled from their lows. Addax Petroleum is up more than 200 per cent.

Among energy trusts, Baytex and Provident are up more than 100 per cent apiece, and Harvest is up more than 80 per cent.

It's a slightly different tale in the U.S. Since bottoming out in March, the Dow Jones Industrial Average is up 34.8 per cent, and the S&P 500 Index has gained 41.4 per cent.

But energy stocks have trailed, with the S&P Energy Index gaining just 28.7 per cent.

While some major U.S. E&P (exploration and production) stocks have sizzled — Apache is up 68.5 per cent, and Devon is up 72.3 per cent — shares of major integrated firms have lagged.

Chevron is up 24.7 per cent from the lows, and Exxon Mobil has gained 27 per cent.

On Monday, crude resumed its recent ascent, jumping \$2.27 to close at \$68.58 a barrel on the New York Mercantile Exchange. That's more than double the 2009 low of about \$33.

Natural gas futures also rallied to close above \$4.20 per million British thermal units, more than \$1 above the 2009 lows.

Few Canadian energy plays haven't participated in this rally.

A quick survey of 20 large-cap and mid-cap names shows all have gained at least 40 per cent in value from their lows. Husky is the laggard, with a gain of 40.2 per cent.

While the supply-demand picture is still mixed — U.S. oil inventories are falling, but so is demand — the sagging greenback is likely a far bigger factor right now.

As we saw in the last bull market, a falling U.S. dollar drives investors — and speculators — into commodities, as they seek an inflation hedge, and a play on rising industrial demand in China.

Weak U.S. dollar driving commodity prices higher, yielding good news for oilpatch

From page E1 With manufacturing output on the rebound in China, it appears this scenario is unfolding once again.

The bottom line: the U.S. economy may be stuck in the mud, but the weak greenback is driving commodity prices higher, and that's great news for Alberta's oilpatch.

So which energy plays look attractive at current prices?

The analysts at Peters & Co. currently carry "sector outperform" ratings on Vermillion Energy Trust (12-month target price: \$36), EnCana (target: \$62), and Imperial Oil (target: \$52), among others.

"Vermilion maintains a conservative approach to managing its base production, while it is well-positioned for growth through a sizable acquisition," says analyst Jeff Martin, in a recent report.

"The trust has the capacity to execute both cash and equity M&A transactions . . . with over \$600 million in available credit facilities."

Martin's colleague, analyst Kam Sandhar, is a fan of both EnCana and Imperial.

He likes EnCana's exposure to the Haynesville and Deep Bossier natural gas shale plays in the southern U.S.

"Given the company's significant land position in both the Deep Bossier and Haynesville, we believe its efficiencies in these regions will improve, especially with the Haynesville moving towards full-scale development in 2010," he says.

Sandhar also likes Imperial's growth profile, now that it's proceeding with its Kearl oilsands project.

Sandhar says Kearl is economic based on the current 12-month forward strip price for crude on NYMEX, and an 11-per-cent after-tax discount rate. "Despite the (\$8-billion project cost) estimate being higher than anticipated, we are maintaining our sector outperform rating and target price of \$52."

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