

[Irwin Kellner](#)

[Rex Nutting](#)

[Tools](#)

[Economic Calendar](#)

[Real Estate](#)

[Location Scouts](#)

[realtor.com](#)

[Watchlist](#)

[Alerts](#)

[Games](#)

[Log In](#)

[Home](#) > [Industries](#) > [Energy](#)

Keystone pipeline: Who wins when the oil flows?



By **Claudia Assis**

Published: Jan 25, 2013 6:00 a.m. ET

4

Aa

Analysts pick their favorite energy shares if project goes through



Keystone oil pipeline under construction in North Dakota

SAN FRANCISCO (MarketWatch) — A decision on TransCanada Corp.'s Keystone XL pipeline is fraught with political peril for the

Obama administration, but for investors the question to ask is clear: If the line is going to be approved, which companies will benefit?

Approval is no slam dunk, but most observers say chances are it will get the nod sooner or later. Earlier this week, Nebraska signed off on the deal, saying a rerouting and TransCanada's **TRP, -0.45%** assurances in case things go wrong satisfy the state's key environmental concerns.

The project was proposed in 2008, but President Obama shelved it in January 2012 amid concerns it would threaten Nebraska's environmentally sensitive Sand Hills region.

A new route was proposed that skirts Sand Hills, though concerns remain that it could foul water resources.

After Nebraska signed off on the redrawn route, the ball is back in the federal government's court. A decision was expected early this year, although the State Department said it may not get to it until the second half of the year.

Pending approval, industry analysts believe the line could be operating by 2015.

Oil industry alarm after Algerian attack (3:36)

Security at oil installations is likely to come under review after the recent kidnapping of workers at a remote Algerian natural-gas complex. Photo: Getty Images

Finding the winners

Investors, however, should focus on Canadian oil producers and those refiners along the Gulf of Mexico that can process the gunk (they don't call it "tar sands" for nothing).

To a certain extent, TransCanada and rival pipeline operator Enbridge Inc. **ENB, -1.14%** which has some pipeline-extension projects of its own, should also be part of the equation.

But gains are largely priced in, and analysts caution that the two companies' stocks already look pricy.

Shares of TransCanada rose 12% over the past three months, and 17% over the past 12 months. Enbridge has also risen 12% in the last three months, and is up 21% since last January.

Analysts get more excited about the Canadian oil producers, the ones that would benefit the most as more of the heavy stuff starts to flow south.

Analysts at RBC listed Suncor Energy Inc. **SU, +0.65%** Canadian Natural Resources Ltd. **CNQ, +0.30%** MEG Energy Corp. **MEG, +3.58%** and Baytex Energy Corp. **BTE, +3.52%** as among their favorites.

Such companies will have "a built-in margin improvement mechanism," said Lanny Pendill, an analyst with Edward Jones. "They are going to get more for every barrel they produce."

Heavy Canadian oil fetches lower prices than West Texas Intermediate, the light, sweet "Texas tea" traded on the New York Mercantile Exchange and which serves as the North American benchmark. In recent months, those price differentials have widened.

Pendill highlighted Cenovus Energy Inc. **CVE, -1.39%** and Imperial Oil Ltd. **IMO, -0.93%** in addition to Suncor, as his favorites.

Exxon Mobil Corp. **XOM, -0.98%** would also benefit, as the U.S. oil giant owns most of Imperial Oil and also owns Gulf Coast refineries set up to handle the heavier crude from up north.

Cenovus also owns refineries in Illinois that could process the stuff, Pendill said.

As for the Gulf refiners, he said Phillips 66 **PSX, -0.78%** and Valero Energy Corp. **VLO, +0.08%** are the ones best equipped to refine the crude. The Gulf plants have seen their fair share of heavy oil, as they have handled harder-to-process oil from Mexico and Venezuela, and even some domestic grades. Such imports would dwindle as more Canadian crude arrives.

Where the oil goes

Production in the Canadian oil sands are expected to average 1.8 million barrels a day in 2012, up 10% from the previous year, analysts at RBC Markets said in a recent note to clients.

In five years, production would increase by two-thirds to 3 million to 3.2 million, the analysts said.

Keystone XL doesn't solve all of distribution problems, however, and some east-west pipelines are planned. But most observers agree that Keystone XL will serve the region's needs for three to five years.

In addition to the heavier oil, the pipeline is also able to handle lighter oil and synthetic oils, TransCanada has said.

Enbridge is still looking for approval for its Northern Gateway line, which would link Alberta to the shores of British Columbia and offer, as the name implies, a gateway to Asian markets.

Keystone XL is essentially a shortcut to an existing north-south line. The 1,180-mile piece under contention would carry oil from the tar sands of Alberta to Steele City, Neb.

Despite the nod from Nebraska, the project faces strong opposition from environmentalists, who say water resources are still threatened in the re-routing, among other concerns.

From Steele City, the line would connect to existing Keystone's arms leading to Patoka, Ill., to carry oil to refineries in the Midwest, and to Cushing, Okla.

From Cushing, the pipeline would connect south to TransCanada's Gulf Coast pipeline, which is under construction, and be available for the cluster of refineries in the Gulf.

With Keystone XL, a \$7 billion project, the Keystone system will have capacity to deliver about 1.1 million barrels of Canadian crude to U.S. markets each day, according to a study commissioned by TransCanada. That's about 6% of total daily U.S. oil consumption.

More from MarketWatch

[These dividend 'kings' have had average annual returns of up to 21% for 25 years](#)

[New data shows a deeper polarization of 'haves' and 'have-nots' in housing](#)

[Clinton scrambles to salvage California | Trump wants Rubio to run for...](#)

QUOTE REFERENCES

Sponsored by 

TRP
-0.19 -0.45%

ENB
-0.46 -1.14%

SU
+0.18 +0.65%

CNQ
+0.09 +0.30%

[SHOW ALL REFERENCES](#) ▾

MORE NEWS FROM MARKETWATCH

