Choosing the Right Oil Company to Own in 2013

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I have been making the point about crude oil production and capex absolutely CONTROLLING the energy space right now and through 2013 and this entry is perfect to point that out again through the released quarterly reports of EOG Resources (EOG) and Pioneer Natural Resources (PXD).

The action in both of these stocks in the market recently have been an oil investors' study — 2013 is all about crude production and capex for that production.

Where are you getting your crude? How much is it costing you to develop? How much will it continue to cost you? When those numbers add up and the results tell a tale of efficiency and growth, you've got a stock that you can confidently hold.

Look hard at what I mean in EOG, a recommendation of mine that's just been tearing it up in the last six months:

There was another beat in the 4th quarter, but that's hardly what interested me in their report. It is their continuing stellar production numbers and continuing guidance for their operations in the Eagle Ford, which is turning into the most compelling play for US crude independence, even outstripping the Bakken — and EOG has a major stake there. Production is guided at increasing 28 percent in 2013 and the initial production numbers confirm that Eagle Ford continues to hit high percentages of long-producing assets. EOG will tighten spacing and add 400 wells – showing why Eagle Ford is not just another U.S. shale oil ‘play’ — it is a game-changer.

This makes EOG still a raging buy, even after their big move in the last 6 months. With increasing and sticky oil prices hovering internationally close to $120/bbl. EOG will mint money through 2014.

Pioneer Natural provides a great contrast as they are a bit more over their skis than EOG — equally attempting to ‘play the volume game' to its advantage, however.

But Pioneer's big play is in the Permian basin, which has required more Capex to find resource growth and continues to marginally disappoint on production growth. In their latest report, Pioneer has increased their capex guidance to $3bln., leading

to their secondary stock offering of 8mm shares on tap overnight. While production from one of their big Wolfcamp developments is increasing, it's not the type of blowout growth that EOG, for example, has guided on in the Eagle Ford.

Still, investors liked the report well enough and believe in the potential of PXD's Permian assets, bidding the stock up 3.5 percent. This is a move I'd rather fade, not because I don't believe in the production guidance, but because I want to be investing in the strongest cycle, which is right now clearly in the Bakken and Eagle Ford.

But the important takeaway is again production growth. While your homework might lead you elsewhere than these two, that still must be the number one thought in choosing the right oil company to own in 2013.

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