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MONEY MONITOR

Energy stocks remain vibrant

TORONTO (CP) — It wasn't supposed to be like this.

Sure, the price of oil spiked at the start of the Iraq war in March 2003 to almost $40 US a barrel but analysts predicted it would soon go down.

And subside it did, to about $30 US a barrel around the time President George W. Bush declared major combat operations over in May of last year.

Now, crude is near record highs near $55 US per barrel because of supply worries.

Those concerns are based on huge demand from China and India and fears about the security of supply from the Middle East — issues that wouldn't appear to be going away any time soon.

Shares in energy companies have also risen, but much less sharply than oil, and some analysts believe these stocks still have plenty of upside because they reflect a belief that the cost of oil is more likely to go down than much further up.

"We've lived through a period in the last 20 years where oil prices on a secular basis were going down," says Gavin Graham, vice-president at Guardian Group of Funds.

"Oil at $40 US in 1980 dollars is the equivalent of $75, $80 US a barrel today. So everybody has grown up in an expectation that oil is either going down or it's not going to go up."

QUOTABLE

"Market sentiment toward the oil sector remains remarkably fearful and cautious."

Ross Healy

However, Graham believes that the only direction for oil now is up.

"People were saying a few months ago that there's an $8 terror premium in the price," he said.

"Well, what is it now? $15? Even if the Middle East were solved tomorrow, there simply isn't much available supply because we've got synchronized growth for the first time in 20-odd years. China and India are now part of the world market, which they weren't, even 10 years ago. And that's not going to change."

Even investors with substantial positions in energy shares are getting cold feet, fearing the trapdoor will open and the price of oil will plunge $20 US a barrel.

"Market sentiment toward the oil sector remains remarkably fearful and cautious," says Ross Healy, president of Strategic Analysis Corp., who continues to regard energy shares as one of the few areas of value in the current stock market.

"I have a feeling that if I said to all my private clients, 'We think that this is it — bail on energy stocks,' that my clients would feel an enormous sense of relief and would get the hell out as fast as they could."

There are a variety of ways for investors to take advantage of higher oil prices, including the least complicated one — a mutual fund, even one that doesn't focus on the sector.

"You could buy a good Canadian fund because you're going to have 17, 16 per cent of that in oil and gas and another 15 per cent in materials and commodities, all of which seem to be benefiting from this bounce in commodity prices," said Graham.

For the more adventurous, there are shares in oil companies.

"You could do a lot worse if you buy the integrated companies, which is Imperial, Shell Canada, Petro-Canada, Suncor," Graham said.

"You're getting both sides of the equation — that is, the oil and gas exploration and production, and also the refining business."

Energy trusts can be more complicated.

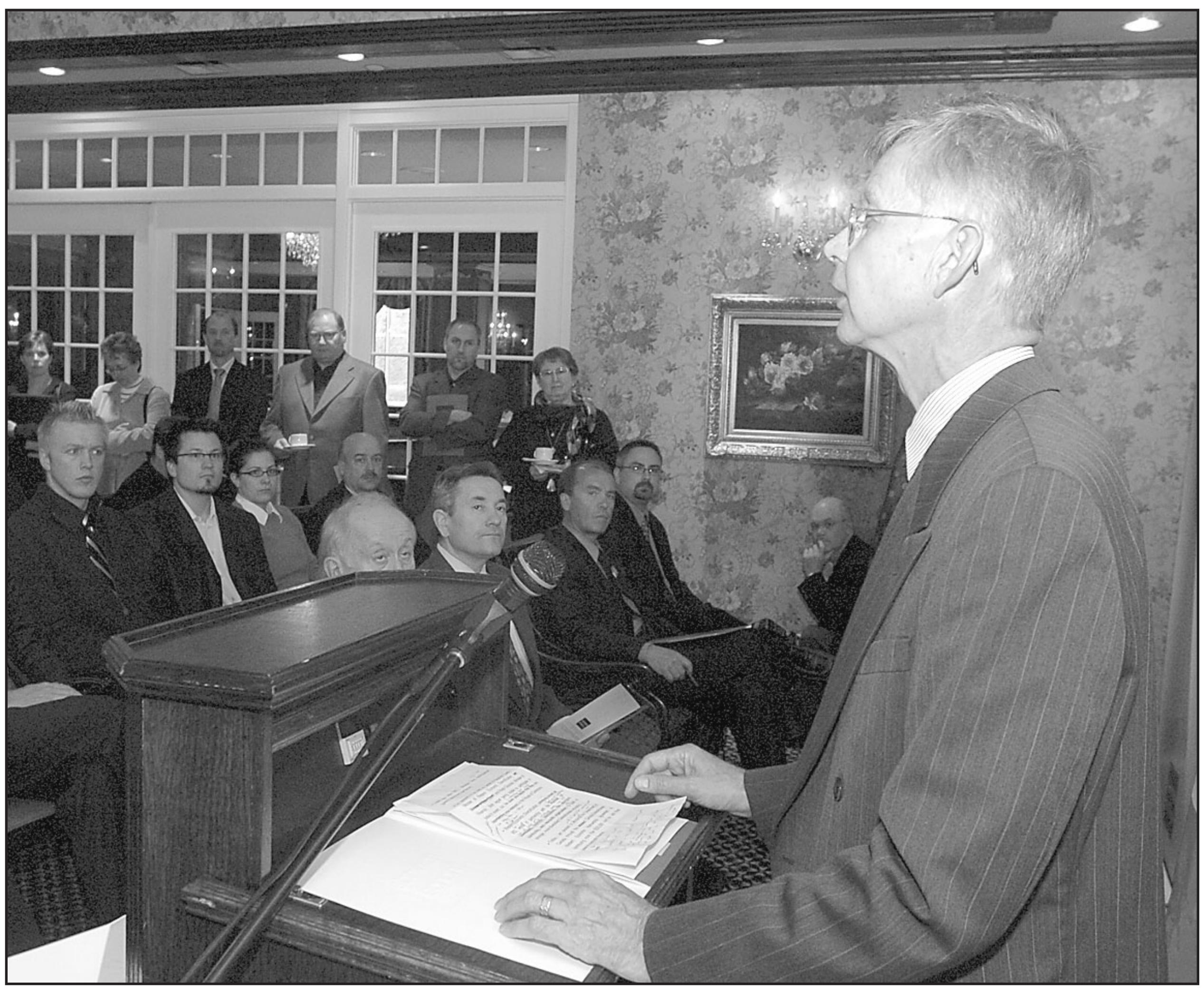
Healy sees problems with trusts in the long term because they tend to maintain themselves by buying producing assets from other companies such as EnCana.

"Essentially, if the reserve life index is fairly short, under eight or 10 years, then I would presume that they are going to be continually replacing what they do have with new pools of energy which they have to buy at current prices," he said. And if energy prices rise, "the pools of energy will still have to be replaced, at much higher prices."

Healy also warns that as energy shares rise, there will be increased volatility.

"And that volatility is going to drive people mad because the corrections can get bigger and bigger. You get a lot of sweaty palms out there."

NEXTRADE



ROY ANTAL/Leader-Post

David James, director general of Western Economic Diversification, announces a new federal-provincial partnership to help exporters expand their businesses.

Sask. exporters get bridge-financing help

By BRUCE JOHNSTONE
Leader-Post

Small- and medium-sized companies needing up to $150,000 to finance the sale of goods or services abroad need look no further than Nextrade, a new export financing program offered by the Saskatchewan Trade and Export Partnership (STEP).

"We're announcing a federal-provincial partnership that will create a $1.7-million micro-credit program to help small and medium-sized exporters with bridge financing," said Industry and Resources Minister Eric Cline at a news conference Thursday.

The "micro-credit" financing facility was made possible by a $1.725-million contribution from the federal-provincial Western Economic Partnership Agreement (WEPA), a four-year, $25-million economic development fund.

Cline said most of Saskatchewan's exporters are small- to medium-sized companies with little or no access to export financing assistance from Export Development Canada (EDC) or other financial institutions.

"Smaller exporters are sometimes forced to access personal credit or, worse yet, walk away from great export opportunities," said Cline. "It's not good for business, and it's not good for the province."

Nextrade will provide $20,000 to $150,000, allowing the exporter to turn export sales into cash immediately and generate cash flow between the time the goods are shipped and payment is received.

Industry and Resources is contributing $1.2 million to finance the Nextrade loan fund, while WD will provide another $500,000 to operate the program for the next three years.

David James, director general of Western Economic Diversification, said offering Nextrade through STEP "speaks well to the credibility of STEP," a government-industry partnership to expand exports of Saskatchewan goods and services.

Keith Brown, chair of STEP, said the organization is made up of "small- and medium-sized exporters of non-traditional exports, who face many unique challenges in their efforts to market their goods and services in the global marketplace. The greatest challenge is accessibility of micro-credit export finance or, to be more precise, the lack of that support," said Brown, president of Trailtech, a trailer manufacturer based in Gravelbourg.

"I believe Nextrade is the key response to this issue."

One exporter who thinks Nextrade could help his business is Jim Ireland of ERIN Consulting Ltd., an environmental consulting firm in Regina.

Ireland said the program makes "your cash flow immediate and provides access to guaranteed payment. It takes out the risk of not being paid. We're going to do our best to take advantage of the program."

Nextrade will begin accepting loan applications Nov. 15.

OIL

Supply worry boosts price again

By PAUL HAAVARDSRUD
CanWest News Service

CALGARY — As if the Iraq war, a near-insolvent Russian oil giant and civil strife in Nigeria weren't enough for oil markets, prices were sent galloping to another record Thursday by worries that U.S. heating oil supplies may fall short of demand when winter hits.

Crude futures surged $1.12 US a barrel in New York trading Thursday to an unprecedented $54.76.

That gain, sparked by word from the U.S. Energy Department that heating oil inventories are 14 per cent below long-term averages, puts the oil price rally at an even 30 per cent since the start of September.

"People are seeing those inventories come down and we haven't reached the heating season yet," explained Martin King, an analyst at FirstEnergy Capital Corp. in Calgary. "It's the usual, you better pay up now for fear it may not be there when you need it two months down the line that's got people excited."

Stockpiles of distillate fuels, including heating oil, fell by 2.5 million barrels on the week, more than twice the expected drop of one million barrels.

Concern that damage from hurricane Ivan, which swept through the Gulf of Mexico last month, could keep several hundred thousand barrels out of the market for much longer than previously thought also played into the bump in prices Thursday.

Beyond the daily ebbs and flows of crude prices, the reality that has been inescapable for oil markets this year stems from a lack of spare production capacity among the world's largest oil producers.

Pegged at anywhere between one and one-and-a-half million barrels of oil equivalent a day, the current buffer isn't believed to be enough to insulate the market against production hiccups.

That means anything from hurricane damage to pipeline ruptures to anti-Yukos rumblings out of Moscow can spur traders to bid prices higher, regardless of how many barrels are actually at risk.

In such a market, prices are poised to run on even minor events, such as the threat of low heating oil inventories. While inventories are 10 per cent below last year's levels, King noted that, "it's not like they're wildly tight."

Still, for users that would see operations crippled without a steady supply of oil, prudence suggests it's better to pay the piper now.

EOY

Al-Katib wins award

By Leader-Post staff

Murad Al-Katib, president of Saskcan Pulse Trading Inc. of Regina, was one of two Saskatchewan businessmen to win awards at the Ernst & Young Entrepreneur of the Year (Prairies region) awards ceremony in Calgary Thursday night.

Al-Katib, a native of Davidson, who turned a one-man operation into one of the province's largest processors of pulse crops in just three years, was named top emerging entrepreneur for the Prairies region.

Following its incorporation in 2001, Saskcan Pulse built a state-of-the-art pulse processing plant in Regina to take advantage of the province's position as the world's leading exporter of pulse crops.

Al-Katib

Since then, Saskcan has acquired several more pulse plants, increased staff to 90 full-time employees and has become one of the province's leading exporters of lentils and other special crops

The other Saskatchewan winner was John Cross, chairman of Philom Bios of Saskatoon, which develops microbiologial inoculants for the agriculture industry. Cross won top honours in the health sciences category.

Bill Comrie, chairman of The Brick Warehouse Corp. of Edmonton, was the recipient of the Prairies region Ernst & Young Entrepreneur Of The Year 2004 award and the EOY award in the business-to-consumer products and services category.

John Murphy, director of the Ernst & Young EOY awards program for the Prairies region, said Comrie introduced innovations in advertising and consumer financing that have had a lasting impact on the Canadian marketplace. "His success story is based on good ideas and years of hard work," Murphy said in a press release.

In 1969, Comrie was a rising young hockey player when his father died, leading him to try to sell the family business—a small furniture store in Edmonton—to support his mother. With no takers, he gave up his hockey career, sold his car, found partners and began running the store and learning retail. After being bought out by his partners, he started a new furniture business from scratch, determined to maintain control and expand sales, eventually locating in a large brick warehouse in downtown Edmonton.

Today, The Brick is Canada's largest volume retailer of furniture, appliances, mattresses and electronics. The company, which also operates United Furniture Warehouse and Home Show Canada, has more than 5,000 employees at 165 locations and generates annual sales of $1.3 billion. In 2002 and 2003, The Brick was listed as one of Canada's 50 Best Managed Companies.

As the Prairies region award recipient, Comrie will compete with top entrepreneurs from the Pacific, Ontario, Quebec and Atlantic regions for the EOY award, to be announced Nov. 4 in Ottawa.

In June 2005, Canada's Entrepreneur Of The Year will move on to the world stage, joining over 30 country recipients participating in the international competition for the title of World Entrepreneur Of The Year.