



3 Stocks to Buy As Oil Falls Below \$50 Per Barrel

Description

For those invested in oil stocks, the news keeps getting worse. On Monday, the price of United States crude fell another 5%, and as of this writing now sits below US\$50 per barrel. The news has dragged down stocks across Canada, as well as the currency. As a result, investors' portfolios are getting hit hard.

So what is an investor to do? Well, you must be prepared for a sustained oil price slump. But what companies actually benefit most from low prices? Below we take a look at three.

1. Canadian Tire

There are a number of reasons why **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)) benefits from lower oil prices.

First of all, the retailer has limited exposure to the province of Alberta. In fact the Western provinces barely account for 25% of the flagship stores. By comparison, Ontario and Quebec combine for over 60% of these stores. And it is these two provinces that benefit most from the slump in oil prices.

Secondly, Canadian Tire typically targets Canada's working class. And these people are likely to benefit most from declining gas prices.

Finally, Tire benefits from higher driving activity. It sells parts at Canadian Tire and Partsource stores. It makes money from servicing vehicles. And it operates a chain of 300 gas stations.

2. Magna

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) is Canada's largest manufacturer of auto parts, and thus benefits twice from the drop in oil prices. First of all, low gas prices encourage people to drive more – this leads to greater vehicle sales, and thus more business for Magna.

Secondly, Magna has a big manufacturing presence in Canada, and is thus aided by a lower Canadian dollar. This makes the company more competitive versus its American peers.

3. Teck Resources

Finally, **Teck Resources Inc.** (TSX:TCK.B)(NYSE:TCK) should certainly be celebrating oil's plunge. Diesel costs make up a big portion of any miner's costs – by one estimate 25% of the total – so lower oil prices should increase margins.

Better yet, lower oil prices should be good news for Teck's biggest customers. These countries include Japan, Taiwan, South Korea, and China. None of them are major oil-producing countries, and thus benefit from the drop in prices.

Finally, Teck is a minority partner in the Fort Hills oil sands project, which is spearheaded by **Suncor Energy Inc.** At first glance, this would appear to be a negative – after all, lower oil prices appear to make this project uneconomic. But Fort Hills was marginal in any case, with a price tag of \$13.5 billion. So even if Suncor puts the project on hold, Teck's shareholders should not be overly upset.

An opportunity

Still, all three of these stocks declined in value on Monday. This is how the market works – when oil falls, Canadian stocks tend to fall too. But with these three stocks, the selling was clearly overdone. So there seems to be a strong opportunity here.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:MG (Magna International Inc.)
5. TSX:TECK.B (Teck Resources Limited)

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