Why Oil Prices Won't Be Rebounding Anytime Soon

Description

These days, you'll find plenty of people willing to bet on the oil sector. According to their logic, with oil prices so low, companies are dialing back spending like crazy. Consequently, supply should fall, and prices should recover.

And it's true that spending plans are being absolutely slashed. But production numbers are staying very elevated. Below we take a look at some examples.

1. Canadian Natural Resources

According to the most recent **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) presentation, the company plans to cut spending by approximately 30% in 2015. But production is set to grow by 9%. What's going on?

Well, there are various "opportunities to optimize facilities and operating costs", which should help maintain production. The massive Horizon oil sands project is progressing nicely. And the company has plenty of financial flexibility.

This should come as no surprise to shareholders — the company has handled these downswings very gracefully before. To illustrate, from 2008 to 2009 (the last time oil prices were this depressed), CNRL cut oil drilling activity by more than 5%, but still increased production by 12%.

2. Penn West Petroleum

Unlike CNRL, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) has had its share of troubles during the past year, to say the least. Over this time, its stock price has fallen by over 75%, and its dividend was recently cut by 80%. In response, the company is slashing its capital spending budget by over 25%. Surely its production will fall, right?

Actually, the company is planning on keeping production flat, adjusting for dispositions. Like CNRL, Penn West is focusing on "profitable growth", and optimizing existing operations.

3. Crescent Point Energy

Unlike CNRL and Penn West, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) still has a big dividend to maintain. To help fund this, it’s cutting capital spending by 28%, even more than Penn West. But Crescent Point still expects production to increase by 9% in 2015.

So what should you do?

This is a story we’ve seen plenty of times before in commodity-based industries – companies will do practically anything to maintain production levels, no matter how depressed prices are.

Pride is certainly a factor – no management team wants to work for a shrinking company. Cutting production levels also sends a bad signal to investors. Besides, no one wants to cut production just to see competitors benefit from rising prices.

So if you’re thinking of betting on the oil sector, there’s plenty of upside if things go right. But don’t count on a price rebound right away.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:VRN (Veren)
3. TSX:CNQ (Canadian Natural Resources Limited)
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bensinclair