



Just How Much of a Bargain Are Canada's Top Oil Companies?

Description

These days, you'll hear plenty of investors—especially in Canada—talk about the opportunities that today's oil price collapse has brought. After all, stock prices have collapsed, and the mood in the industry is at a multi-year low. So, if you step in before everybody else does, there's the potential for big profits.

That being said, there's a problem with this thesis: the numbers tell a different story. To illustrate, we look at what's happened since November 27, which is when the oil market truly went into a free fall. We'll use two examples, both of them large Canadian oil producers.

First, let's take a look at what's happened to oil prices over the last three months. Back on November 26, oil ended the day trading for US\$73.70 per barrel. The next day, OPEC voted not to cut production, sending prices plummeting. Oil prices then fell by as much as 40% before recovering by 20% in the past three weeks. If you invested US\$1,000 in oil itself, your stake would now be worth US\$727.

Canadian Natural Resources Ltd.

So, what happened to the shares of **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)) over the same time? Well, the shares fell by no more than 25%, a lot less than oil's 40% fall. And then, while oil recovered by 20%, CNRL shares jumped by 20%.

This seems odd to me. CNRL shareholders didn't have to suffer the downside, yet fully participated in the upside. I know this isn't a perfect science—after all, there are other factors to consider, like currency movements and company-specific issues.

Still, these price movements display a very powerful message. Investors are somewhat hopeful of an oil price rebound, and have priced CNRL shares accordingly. Other companies show a similar pattern.

Suncor tells a similar story

Let's look at another Canadian energy giant, **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)). Like CNRL, Suncor has a clean balance sheet and some good low-cost assets, making the company a popular

way to bet on an oil rebound. Also like CNRL, Suncor's share price hasn't suffered as much as the oil price.

In December, Suncor's shares bottomed out at about \$31, having dropped 20% since late November. From that point forward, the shares have gained nearly all of its losses back. Incredibly, Suncor's stock price has declined by less than 5% since late November, while the price of oil is down by more than 25%.

A bad choice

If you're looking to bet on an oil rebound, you're left with a bad choice. On one hand, you can bet on a solid producer like Suncor or CNRL. If you do so, you won't really be paying a bargain price. Or if you're looking to pay pennies on the dollar, you can go with a company that has a poor balance sheet.

Either way, I don't think this is a bet worth making. After all, the stock prices that really matter aren't depressed that much, meaning there's less to be gained. Making matters worse, the risks are as high as ever.

CATEGORY

1. Energy Stocks
2. Investing

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1. Editor's Choice

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
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