3 Reasons to Avoid Oil Stocks This Year

Description

The sharp decline in crude oil prices has ravaged Canada's oil industry. A number of companies have cut jobs or reduced their investment plans. Although the cuts aren't yet fully reflected in the stock prices of energy companies, this may be a good time to take a break from investing in the sector.

1. **The industry will lose money and jobs in 2015**

In a report released on Wednesday, the Conference Board of Canada said the collapse of oil prices in the second half of 2014 will "take a bite" out of the oil industry's finances. Revenues are expected to fall by 37% and the industry will post a pre-tax loss of more than $3 billion and shed close to 8,000 jobs this year.

"With WTI prices now hovering below $50 [per barrel] and most projections climbing slowly to $80 a barrel in the next few years, the Canadian oil industry is coming to grips with the new price environment," said Mike Shaw, an economist at the Conference Board. "Canadian companies have quickly cut billions from their investment plans, as well as instituted layoffs and hiring freezes to minimize losses. Consolidations and re-evaluations of spending plans will likely continue through 2015 and 2016."

Oil investments are expected to fall from $56 billion last year to $44 billion in 2015, the report states. Prices are expected to average $55 per barrel in 2015, as cuts in investments ease production growth and low prices spur demand.

2. **Job losses multiply**

Last week, **Talisman Energy Inc.** (TSX:TLM)(NYSE:TLM), **ConocoPhillips Canada** and **Nexen Energy ULC** (TSX:NXY) all announced job cuts. Talisman, which is set to be taken over by Spain's Repsol SA, is reducing its workforce by 10-15%, mostly at its Calgary head office. That amounts to 150-200 jobs.

ConocoPhillips Canada cut 7% of its work force, around 200 jobs, at its Calgary head office, while

Nexen slashed 400 jobs, including 340 positions in North America and 60 in the United Kingdom.

Other energy firms have announced layoffs in recent months, including **Suncor Energy Inc.**, **Shell Canada Ltd.** and **Cenovus Energy Inc.**

3. **Investments dry up**

The Canadian Association of Petroleum Producers (CAPP) said earlier this month that it expects investments in the oil patch to drop by as much as one-third in 2015 compared to 2014, a decline of $23 billion.

The industry is expected to spend $46 billion this year, down from $69 billion last year. However, output is expected to grow to 3.6 million barrels a day in 2015, an increase of 150,000 barrels from 2014. Similar growth rates are expected next year. However, the rate of growth is slower than the oil industry group had previously predicted.

CAPP President Tim McMillan noted that the group expects capital spending to drop much more steeply in conventional oil and gas than in the oil sands. "I think that is a phenomenon based on the long-term nature of investments in the oil sands," he said in a Canadian Press interview.

The truth is that many analysts expect the second quarter to be even worse than the first for the oil industry, and that doesn't bode well for share prices. There's little doubt that prices will eventually recover, although the days of triple-digit crude prices may be a long way off.

There are those that would argue cheap oil stocks make a great entry point, but if things are going to get worse before they get better, it may be wiser to stay on the sidelines, at least for the time being.

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1. Energy Stocks
2. Investing

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