3 Reasons to Be a Contrarian and Buy Oil Stocks This Year

Description

With West Texas Intermediate (WTI) now trading well under US$50 per barrel and many companies forced to slash expenditures and battling to survive, many analysts believe that investors should avoid oil stocks this year.

However, as a contrarian I believe this has created a once-in-a-lifetime buying opportunity.

Now what?

The oil rout has triggered a massive sell-off of oil stocks, leaving many stocks trading at attractive valuations, yet oil can only rebound over the long term. Let me explain why.

First, growing dissent in OPEC is set to force the cartel to raise oil prices. A key driver of the global-supply glut is the determination of Saudi Arabia to regain market share by keeping crude production high so as to drive prices down and push high-cost U.S. shale oil producers out of production.

However, this strategy is having a tremendously negative impact on many of OPEC's members. It is estimated that 10 of OPEC's members will run a budget deficit this year because of low crude prices. This may not affect those with strong economies and large foreign currency reserves, but the impact on weaker members, including Venezuela, Nigeria, and Iran will be extreme.

Venezuela, which incidentally has the world's largest oil reserves, is seeing its economy spiral out of control. Low crude prices are applying even greater pressure to what is essentially a petro-currency that has been propped up by high oil prices. This is creating significant domestic dissent, as shortages of critical products and services grow.

Both Nigeria and Iran are also being hit by low crude prices and they, along with Venezuela, are pressuring OPEC to reduce production.

Second, long-term demand for oil is set to grow exponentially. No matter which way you look at it, oil powers our modern global economy. Even though waning global economic activity is having a severe impact on demand, it can only pickup over time. The International Energy Agency is estimating that between now and 2030, global demand for crude will rise by 25%.

Finally, activity in the U.S. oil industry is declining. Since October 2014, the U.S. rig count (a proxy for activity) has dropped by 46% and continues to fall, with oil companies slashing investments in drilling and production activities. This will cause U.S. oil output to sharply decline, although it may take some time for this to be felt because of high U.S. oil inventories and the long lead time required to wind down production.

So what?

Integrated majors **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and **Canadian Natural Resources Ltd.** (TSX:CNQ)(NYSE:CNQ) appear to be expensive, with share prices of more than 60 times projected 2015 earnings. However, many upstream producers with healthy balance sheets seem cheap on the basis of their oil reserves. This includes **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Bonterra Energy Corp.** (TSX:BNE) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which have enterprise-values of 18 times their oil reserves.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:VRN (Veren)
4. TSX:BNE (Bonterra Energy Corp)
5. TSX:BTE (Baytex Energy Corp.)
6. TSX:CNQ (Canadian Natural Resources Limited)
7. TSX:SU (Suncor Energy Inc.)
8. TSX:VRN (Veren Inc.)

Category

1. Energy Stocks
2. Investing

Date
2025/10/02
Date Created
2015/03/27
Author
mattdsmith