# Crude Oil Prices Unlikely to Recover Until 2nd Half of Next Year

## Description

Crude oil prices will remain weak until at least this time next year, predicts Raymond James analyst Andrew Bradford, because there are no clear signals in sight for a short-term recovery. Crude oil prices took another hit this week after China, a major commodity importer, devalued its currency.



Bradford's focus is on drilling companies, rather than producers, and he has lowered his rig count forecasts for the second half of 2015, reflecting his belief that there's little chance of a fourth-quarter oil price recovery.

"We don't envision any obvious catalysts for a crude-based recovery until later in 2016," he said in a report. "In Canada, we suspect that condensate-rich natural gas and LNG-related developments will motivate some year-over-year capital spending growth. The net impact has been to lower our 2016 Canadian rig count forecast by 23% and our U.S. onshore rig assumption by 12%, which in turn has hit our 2016 driller [earnings before interest, taxes, depreciation and amortization] forecasts by about 20% to 25%. Our 2016 EBITDA estimates are anywhere from 5% to 15% below consensus."

"In short, we're expecting thin returns from most drilling stocks over the next six months. The buying opportunities that do exist in the drilling space reside primarily with mispriced stocks—that is, the stocks that we think are overly beaten-up relative to their cash flow generation."

Bradford says **Savanna Energy Services Corp** (TSX:SVY) ranks very high on that list with **Trinidad Drilling Ltd.** (TSX:TDG) in second place. "Despite its recent rally, Savanna is down 59% year-to-date, while Trinidad is down 38% (the TSX is down 2%)."

The analyst has lowered his price target on Trinidad, as well as **Ensign Energy Services Inc.** (TSX:ESI), **Precision Drilling Corporation** (TSX:PD) and **Western Energy Services Corp.** (TSX:WRG).

Vikas Dwivedi, analyst at Macquarie, agrees with Bradford's forecast. Even with stronger demand, the global oil market, which has been overwhelmed by a supply glut, is unlikely to balance until the fourth quarter of 2016.

“We believe it will be difficult for Brent and WTI crude prices to sustain any significant, fundamentally driven rallies for the balance of this year and potentially through the first half of next year,” Dwivedi said.

A longer-than-expected oil price slump leaves investors with a difficult decision. Buy now and hope that we are near the bottom, or wait it out until next year and hope for even better bargains. In this case, patience may be a virtue.

**CATEGORY**

1. Energy Stocks
2. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. TSX:ESI (Ensign Energy Services Inc.)
2. TSX:PD (Precision Drilling Corporation)
3. TSX:TDG (Trinidad Drilling Ltd.)
4. TSX:WRG (Western Energy Services Corp.)



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