



## Oil Companies: Are They Worth Investing in?

### Description

You can't help but feel sorry for oil companies. Just a few short years ago a barrel of oil was being sold for over US\$100 per barrel. The loonie was at parity or better with the greenback, and Alberta was the heart of the nation's economy, all thanks to the oil and gas industry.

As oil prices started to tumble, oil companies were squeezed dry for savings and efficiencies. Here's a look at how some of the major oil companies are coping with the lower price of oil and what this means for investments.

#### Suncor Energy Inc.

Let me start off by saying that **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)) is by far the exception to what is occurring in the oil and gas industry. Where other companies are faltering and scrambling, Suncor has been extremely successful this year.

The company has become extremely efficient in reducing costs and has decreased the operating cost per barrel to \$27 in the most recent quarter. By way of comparison, in 2014 that figure is a 20% improvement over 2014, and the company believes that the cost per barrel has room to decline further. This one aspect places the company ahead of the crowd. Should oil prices decline even further, the company will still be profitable, albeit at a much lower level.

Beyond cost cutting, Suncor's other strength lies in the financial muscle that the company has at its disposal. Suncor has less debt than other competitors; the debt level is under a quarter of the company's capitalization, whereas for some other competitors that figure is in excess of 100%.

Suncor is also a diversified company with access to additional revenue from Petro-Canada gas stations. These locations have contributed over \$600 million to the company's bottom line this year alone.

#### Penn West Petroleum

**Penn West Petroleum Ltd.** ([TSX:PWT](#))([NYSE:PWE](#)) is an oil company that is on the opposite end of

the spectrum.

The company has had a particularly rough time with plunging oil prices. It was forced earlier this year to meet with lenders to work out better rates. The company eventually sold off some \$414 million in assets, which helped bring debt under control.

The stock is down nearly 50% year-to-date and market capitalization is down to \$662 million, but at this point there isn't much left to cut.

Investing in the oil and gas industry is always going to be risky, but given the extraordinary drop in prices over the past year, that risk is much higher than it has been at any point in the past. In my opinion, until such a time when oil starts to appreciate in price or until oil companies are able to turn a profit with expenses per barrel in the \$20-25 range, investors would be better suited to diversifying their portfolios into another industry.

## CATEGORY

1. Energy Stocks
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1. Editor's Choice

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