These Oil Stocks Have Investors Quaking Now That Crude Has Crashed Below $50

Description

The price of crude oil has been in a funk this month, plunging over 9% last week amid concerns that oil stockpiles in the U.S. were growing out of control. The slump pushed crude to its lowest price since November after it closed below $50 per barrel. That price level is more than just a psychological barrier because several oil stocks were banking on crude staying well above that critical mark to fuel their 2017 growth plans.

Taking it on the chin

Encana Corp. (TSX:ECA)(NYSE:ECA) is one of the many oil stocks that have sold off sharply in recent weeks as a result of the crude oil slide; it's down nearly 20% over the past month. One reason for the decline is that the company requires $55 oil to fuel its production growth engine over the next few years. However, with crude down sharply in recent weeks, the company might not generate as much cash flow as expected, which could cause it to pull back the reins on its drilling activities.

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) is another oil stock that has taken a beating this year as a result of the recent slump in oil prices. Since the start of the year, its stock is down nearly 30%. Fueling that decline is the fact that, like Encana, Baytex needed crude closer to $55 to feed its 2017 budget.

In fact, Baytex recently restarted its Canadian heavy oil drilling operations as a result of crude's rise last year, reversing its decision to halt drilling early last year due to low oil prices, so it could match capex with cash flow. However, it now runs the risk of outspending cash flow this year if crude doesn't pick back up, which would put pressure on its debt-heavy balance sheet.

Built-in breathing room

Both Encana and Baytex based their 2017 spending plans on $55 oil, which at the moment appears to be a bit ambitious, especially when compared to the budgets of some of their peers.

For example, **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) can fully fund its growth-focused

2017 budget and its dividend at $52 oil. Meanwhile, **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) only expected to use 80% of its funds flow from operations to finance its growth-focused 2017 capex plan. Both companies have more breathing room than rivals that based their budgets on higher oil prices.

Likewise, **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) put together a very conservative budget for 2017. While the company did use $55 oil as its budget level, it could finance $3.9 billion of growth projects and pay the dividend at that oil price while still producing between $1.5 billion and $1.9 billion in free cash flow.

Further, Canadian Natural Resources built in flexibility, so it could increase spending by up to $595 million or cut it by $900 million depending on what happened to oil prices. The company’s free cash flow buffer and ability to defer spending mean it shouldn’t have any problem handling the recent slump in crude prices.

Investor takeaway

Canadian oil companies took two vastly different approaches to budgeting in 2017. Crescent Point, Penn West, and Canadian Natural Resources took a very conservative approach. These companies probably will not need to alter their plans if crude continues to head lower.

However, Encana and Baytex banked on crude rising to $55 per barrel this year, which they anticipated would provide the cash they needed to meet their rather ambitious budget projections. However, with crude diving, it’s causing investors to worry that these companies might have gotten a bit too aggressive, which could force them to cut back on spending if conditions grow much worse.

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