



These Oil Companies Are Trading at Less Than Tangible Book Value

Description

Over the past two years, oil prices have declined significantly, and the industry has lost its footing. While many oil companies have declined and offer seemingly good value, other companies have been completely decimated and can now be bought for less than tangible book value.

For companies that provide services to oil producers and oil exploration companies, the losses have not been as severe. Although oil pipeline companies may have declined in value by a modest amount, the dividends continue, in almost all cases, to be paid as the oil continues to flow through the pipelines. The losses in refining companies have been felt by investors, but in many cases, the situation is fixable, assuming oil prices turn the corner and sustain a price above US\$50 per barrel.

The very large losses have come from companies involved at the beginning of the oil production process. Oil exploration companies that take the raw materials out of the ground have been hit the hardest. Investors can now invest in this part of the sector at prices that are less than the tangible book value per share. The caveat is that without an increase in the price of oil, the solvency of many of these names may become an issue.

Penn West Petroleum Ltd.'s (TSX:PWT)(NYSE:PWE) share price is currently less than \$2 per share, but the tangible book value per share is (as of March 31) is closer to \$4.50. The downside is, the assets of the company carry a very high amount of accumulated depreciation, which translates to owning assets that are “older” or more depleted than many other competitors.

Crew Energy Inc. ([TSX:CR](#)) is no exception. At a price close to \$3.75 per share, the tangible book value is closer to \$6.60 per share, which translates to a discount of approximately 43%. Shareholders are receiving a substantial amount of value at a discount that's contingent on oil prices recovering. The company is able to generate substantial cash flows to get through the next few months (or years) until the price of oil recovers.

Other names that also trade at discounts to tangible book value are **Birchcliff Energy Ltd.** ([TSX:BIR](#)) and **Bonavista Energy Corp.** (TSX:BNP). Although both companies face the same challenges as all oil-exploration companies, investors willing to enter a higher-risk/higher-return investment have the

opportunity to make returns that are multiple times their money. The downside, however, will be a very large loss (or potential bankruptcy) if oil prices do not turn the corner and rebound in the next year.

Shares of Birchcliff Energy Ltd. trade close to \$6 and carry tangible book value of \$6.73, while share of Bonavista Energy Corp. trade close to \$2.50 per share and carry tangible book value closer to \$6.50 per share.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BIR (Birchcliff Energy Ltd.)
2. TSX:CR (Crew Energy)

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1. Msn
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Date

2025/08/26

Date Created

2017/06/27

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