Who Benefits From Falling Oil Prices?

Description

The collapse of oil prices from highs of over $120 per barrel caused shockwaves in markets, big losses, and uncertainty for energy companies. And three years later, with oil having fallen as low as $30 per barrel, then recovering to close to $60 per barrel, we are seeing oil retreat again to prices in the low $40 range.

With so many factors coming into play in analyzing where oil prices “should” be and when they will go higher, it is clear that it is not an easy task. Instead of trying to predict if and when oil prices will strengthen and stabilize, I think investors are better served to focus on companies that stand to benefit from the dramatic fall from grace that oil has experienced.

With prices in the $40 range, the energy needs of companies and consumers are much less expensive than they were in the past; thus, this leaves more money in their pockets. Usually, what is bad for one sector of the economy is good for another.

Retailers, for example, are benefitting from the fact that consumers have more disposable income. And the retailers that have done well have made efforts to offer competitive pricing and/or differentiated product or experience.

Dollarama Inc. (TSX:DOL) and **Indigo Books and Music Inc.** (TSX:IDG) are two such retailers that have not only been doing the right things internally, but are also benefitting from the fact that consumers have more disposable income in their pockets. Dollarama is seeing same-store sales growth of 4.6%, and Indigo Books and Music is at 4.1%.

Cineplex Inc. (TSX:CGX) is another company that benefits, as people up their spending on entertainment and opt to visit the theatre more often. With a dividend yield of 3.17%, strong free cash flow generation, 80% of the Canadian box office, and a strong brand name that will help the company with its efforts to diversify into different segments of the entertainment business, this company stands to reap the reward of lower oil prices.

Next, let’s talk about companies where fuel/energy costs are a high percentage of operating costs, such as **Air Canada** (TSX:AC)(TSX:AC.B). Air Canada’s stock is trading at 52-week highs of almost

$20, and the company just reported that its second-quarter results will be significantly above expectations as lower fuel prices and very strong ticket sales take effect.

In conclusion, while the energy sector continues to suffer from the weakness and volatility in energy prices, there are other companies that are benefitting from it, so having these companies as part of our portfolios makes sense.

CATEGORY

1. Investing

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2. TSX:CGX (Cineplex Inc.)
3. TSX:DOL (Dollarama Inc.)
4. TSX:IDG (Indigo Books & Music)

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