Is it Safe to Invest in Oil and Gas Companies Again?

Description

Oil prices have not found any sustainable movement upward this year and have been stuck in a range between $45 and $50 for most of the year. Although prices have not been going up, perhaps more importantly, prices have not been declining much further either. Oil and gas producers would certainly prefer higher oil prices, but, at the very least, the commodity has been stable, and the free fall seems to have stopped.

The one big wildcard that will impact oil prices revolves around OPEC and its production cuts. There is uncertainty about whether production cuts will continue, if the cuts will go deeper, or if the agreement will simply end. If production cuts are moved off the table, that could undermine the support that the price of oil has had this year at around $45.

However, countries dependent on a strong price of oil would have a lot to lose by abandoning production cuts. Some countries may certainly feel pressure to pump more oil to bring in revenue, but if prices start to decline sharply, then the incentive for a higher oil price might outweigh the need to produce.

Although I wouldn't be too pessimistic about the price of oil seeing a significant drop in the near future, I could see a drop down to the ~$40 mark or high $30s if there is not enough compliance with production cuts.

With a bit of stability in the commodity's price, it might be time to get back into oil and gas stocks. The two companies I have listed below might make good investments in the industry.

Encana Corp. (TSX:ECA)(NYSE:ECA) has seen its stock take a pummeling in the past five years, dropping nearly half of its value over that time. The bleeding has continued with the stock declining over 24% in the past three months. However, after reaching a 52-week low of $10.54, the stock has been able to stay over $11, so there may be some support at that price.

The company has been able to post a profit in three of its last four quarters and has a strong balance sheet showing a current ratio of 1.3 and a debt-to-equity ratio of 0.86.

Husky Energy Inc. (TSX:HSE) has a similar story to Encana's, although its stock has only dropped 13% of its value in the past three months. Husky has performed well recently and has been able to grow its revenue in each of the past four quarters. Most recently, revenues of $4.5 billion in Q2 were up over 42% from last year. Prior to its most recent quarter, Husky was able to string together three consecutive profitable quarters.

The company has also posted a profit in three of its past four fiscal years; 2015 saw a loss of $3.8 billion. What is encouraging is that Husky was able to recover with a profitable 2016, despite seeing lower revenues. Like many companies in the industry, Husky has been more efficient and has found ways to cut costs. Operating expenses of $11 billion in 2016 were almost half the $21 billion incurred in 2015, despite seeing 21% fewer revenues.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/03
Date Created
2017/08/22
Author
djagielski