How Will Canadian Oil Stocks Respond in the Wake of Hurricane Harvey?

Description

The aftermath of Hurricane Harvey has left devastation on the U.S. Gulf Coast and continues to ravage southeast Texas with record rainfall. On August 29, U.S. refinery capacity was estimated at only 30% with more refineries set to close. These closures will undoubtedly result in production being curbed by major producers. Oil has continued its decline to hover around the $46 mark as crude oil stores are piling up and driving down the price.

How will Canadian oil producers be affected in light of this disaster? Should investors be preparing for another swoon in oil? Counts are set to be skewed for the coming weeks, if not months, which will cloud investor perception.

Calgary-based **Encana Corp.** (TSX:ECA)(NYSE:ECA) declined 2.8% week over week as of close on August 29. The company produces almost 80,000 barrels of oil per day primarily from locations in Texas, which have reportedly been affected by the storm. The region has lost 24% of its refining capacity and 2.2 million barrels per day because of the storm. **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which produces over 20,000 barrels of oil per day from the Texas location, has dropped 1.3% over the course of the past week, but it has recovered somewhat since August 28.

Gasoline prices have risen after the storm, rising the most since the summer of 2015 in the U.S. and as much as $0.02 per gallon more in the last week of August. As for oil, price moves have been limited following storms in the past, even though Harvey is the first in over a decade to so dramatically impact refinery capacity in the United States.

It is not just Canadian producers on location that will suffer as Texas officials work feverishly to determine the damages of the storm. The refineries are also a significant demand point for Canadian heavy crude oil. This means that other companies such as **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) will feel the pain as both possess offices in Houston to facilitate business.

Production in the Gulf of Mexico was interrupted by the storm but has been largely restarted. Over 300,000 barrels per day remain offline, representing about 22% of Gulf production. The suspension of fracking activities in Texas will also have a significant impact on oil prices and assets. Though it was initially believed that halts in production would drive oil prices up, at least temporarily, it appears that the event has not turned around investor sentiment, as there remains a great deal of excess oil storage worldwide.

With oil prices inching closer to lows seen in June and July, it may be a good opportunity for investors to take a second look at Canadian energy stocks. Enbridge shares, for example, are down 11.8% for the year in spite of strong future prospects. It also boasts a tasty 4.9% dividend yield at $0.61 per share. With projections for oil slated to be in the $45-55 range for the remainder of 2017, this could be a buy-low opportunity for the stocks mentioned.

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