Could a Global Trade War Drive Canadian Energy Stocks Down Even Further?

Description

On March 8, United States president Donald Trump signed for tariffs on steel and aluminum imports. Fortunately for Canada, it was exempt, along with NAFTA partner Mexico. However, oil prices have been battered in the aftermath, as threats of a trade war have some analysts concerned that global growth could be hindered.

Exxon Mobil Corporation CEO Darren Woods said in an interview with *CNBC* that the tariffs have the potential to undo some of the benefits of the U.S. Tax Cuts and Jobs Act. Within the Trump administration, chief economic advisor Gary Cohn resigned after refusing to back the move by President Trump. Reportedly, Trump has considered inserting Peter Navarro into the role, who considered a staunch protectionist in comparison to the pro-free trade Cohn.

It is a dramatic turn for oil, as geopolitical tensions had actually driven prices up largely due to rising tensions in the Middle East in 2017. Now oil faces a number of headwinds. In addition to the threat of lower global growth, U.S. oil production also hit a new weekly record. The Energy Information Administration (EIA) reported on March 7 that total U.S. production was up 86,000 barrels to 10.369 million barrels per day.

Canadian production is expected to grow at a much lower rate, especially with complications with major pipeline projections like the Keystone XL. Reports indicate that oil patch investment has fled to the U.S. after corporate taxes were lowered from 35% to 21%. This is indicative of a potentially larger problem, as foreign direct investment dropped 26% to $33.8 billion in 2017 — an eight-year low.

These factors have combined to make 2018 a difficult one for the top Canadian energy stocks.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is a Calgary-based energy transportation company. It boasts the largest crude oil and liquid hydrocarbons transportation system in North America. Enbridge stock has plunged 16.3% in 2018 as of close on March 8. A report in mid-February indicated that Enbridge is looking to up its asset sales to $8 billion. Leadership did not confirm or deny the report.

Enbridge posted earnings of $2.5 billion in 2017 compared to $1.77 billion in the prior year. Adjusted EBITDA climbed to $10.3 million compared to $6.9 million in 2016. Enbridge also hiked its dividend by

15% in 2017 and another 10% in 2018. The stock now offers a quarterly dividend of $0.67 per share, representing a 6.5% dividend yield.

Suncor Energy Inc. (TSX:SU)(NYSE:SU) is a Calgary-based integrated energy company. Suncor stock has dropped 9.3% in 2018 thus far. In late February, Suncor filed an application for a 160,000 barrels-per-day steam-based oil sands project north of Fort McMurray. The $6.2 billion project would begin construction in 2024 and would be slated for production by 2027.

Suncor released its 2017 fourth-quarter and full-year results on February 7. Funds from operations hit a quarterly record of $3.01 billion in Q4. Net earnings in 2017 rose to $4.4 billion compared to $445 million in the prior year. The company hiked its dividend 12.5% year over year to $0.36 per share, representing a 3.4% dividend yield.

As trade tensions heat up, and the Canadian industry struggles to produce the enthusiasm of its U.S. counterparts, investors should be wary and look elsewhere for capital growth and income right now.

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Date
2025/08/14
Date Created

2018/03/09
Author
aocallaghan