The Flip Side to Rising Oil Prices: Baytex Energy Corp.'s Gain Is Air Canada's Loss

Description

With the price of oil closing at $65.41 yesterday, up 6.3% month to date, we are seeing energy stocks rally in response. Stocks like **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE), which has rallied 24% this month, are making investors very excited, as higher oil prices are lifting the company's fortunes.

But we can see the flip side to rising oil prices when we look closer at companies where fuel/energy costs are a high percentage of operating costs — companies like **Air Canada** (TSX:AC)(TSX:AC.B) and **WestJet Airlines Ltd.** (TSX:WJA).

After more than doubling since the beginning of 2017, and a more than 13-fold increase from just $2 five years ago, Air Canada has been range bound since the end of 2017. And yesterday the stock fell 1.45%.

And while Air Canada is not the airliner of the past, rising oil prices are still a big risk for the company.

In the fourth quarter of 2017, the fuel cost per litre increased 13.8%, and for the full year, the fuel cost increased 16.2%.

The company's renewed focus on returns on invested capital, cash flow, free cash flow, and growing profitably notwithstanding, the fuel cost was 18% of revenue in 2017 compared to 15.5% of revenue in 2016.

Another area of vulnerability with rising energy prices is the consumer.

Gas prices are rising quickly and hitting levels of well above $1.30 in some areas of Canada, and forecasts are calling for even higher prices as the year unfolds.

This is sure to impact the consumer, which would be a double whammy for Air Canada, as less money in consumers' pockets might very well impact their travel plans, thus driving lower traffic for the airliner.

Certain retailers will probably also feel the negative effects of this — like **Canada Goose Holdings Inc.**

(TSX:GOOS)(NYSE:GOOS), whose products are what we can consider a luxury, and which would be among the first to be cut if the consumer needs to cut somewhere.

The 60-year-old, $3.7 billion apparel retailer has certainly had a great run. The stock IPO'd at $17 a share and quickly proceeded to rise and is currently trading 176% higher at $47 a share.

Canada Goose's most recent quarter, the third quarter of fiscal 2018, was a strong one, with revenue increasing 27.2% and the gross margin increasing to 63.6% from 57.5%, as direct-to-consumer revenue increased 82%.

But while margins and returns are industry leading, valuation matters. The stock trades at a P/E ratio of 69 times this year's expected earnings, leaving it vulnerable to any weakness, or even just weaker-than-expected results from the company.

These are not the stocks to be invested in at this time — a time when interest rates and energy prices are rising, and the consumer will most certainly feel the pinch.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:AC (Air Canada)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date
2025/07/07
Date Created
2018/03/22
Author
karenjennifer