



Will the Energy Stock Rally Last?

Description

Energy stocks, particularly oil and gas producers, are generally more volatile than the average stock on the market. Now that the WTI oil price is trading at the highest level we've seen in three years, you've got to wonder when it will run out of steam.

In the meantime, we saw some oil and gas producers rally strongly from their recent lows. **Spartan Energy Corp.** (TSX:SPE) and **Birchcliff Energy Ltd.** ([TSX:BIR](#)) are up ~20% and ~50%, respectively, from their lows in early March. **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) is up ~22% from its low in April, and **Vermilion Energy Inc.** ([TSX:VET](#))([NYSE:VET](#)) is up ~10% from its low in mid-March.

In fact, some investors have already taken some profits from Vermilion stock, as the stock has dipped quite sharply by ~6%. Otherwise, its gains would have been even more impressive.

Four stocks are a small sample size of oil and gas producers, but could Vermilion be leading the way in the profit taking?

Stock-specific wise, Birchcliff has some resistance below \$5 per share, and Crescent Point has a strong resistance at ~\$11 per share, while the other stocks' resistances aren't so prominent.



Should you be in oil or gas?

There was originally more of a glut in gas than in oil. Oil prices have lifted, but gas prices haven't. So, generally speaking, you'd want to be in oil than in gas.

Yet, Birchcliff has rallied the strongest from its low in the group, even though it's a gas-weighted producer. That probably had to do with the fact that it was way too cheap previously. In fact, the stock was trading at its lowest multiple ever when it was below \$3 per share!

Spartan is cheap, too. However, it's about to be [acquired by Vermilion](#). Some investors don't like that idea because they'd bought Spartan for its price appreciation potential. So, Spartan stock hasn't really taken off since the news came out.

Vermilion is getting a good deal on Spartan, but as a mid-cap oil and gas producer, it wouldn't get the same kind of price appreciation that Spartan would when oil prices remain high.

Moreover, Vermilion tends to trade at a premium because of its stable dividend. Since 2003, Vermilion has increased its dividend by 35%. In fact, it just increased its dividend in May. Currently, Vermilion offers a ~6.4% yield at ~\$43.20 per share.

Will the energy stock rally last?

Oil and gas prices are volatile, and they make the share prices of oil and gas stocks volatile as well. If oil prices remain stable above US\$60 per barrel, it should show positively in the share prices of oil-weighted producers.

However, at the end of the day, other than the cooperation of commodity prices, whether an oil and gas stock will go higher depends on if the individual companies are well managed and the valuation of the individual stocks. On top of keeping costs low and focusing on producing free cash flow, the companies should also maintain strong balance sheets.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. NYSE:VRN (Veren)
3. TSX:BIR (Birchcliff Energy Ltd.)
4. TSX:VET (Vermilion Energy Inc.)
5. TSX:VRN (Veren Inc.)

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