The Top Stocks to Watch if Oil Falls Rather Than Rises in Late 2018

Description

As the U.S seeks to lower the price of oil by pressuring OPEC, even while placing sanctions on Iranian oil and thereby creating a potential bottleneck, the ongoing American trade war with China may lower demand for oil, dropping prices yet further.

Indeed, as the year progresses, *demand* may be the key word in oil markets, taking over from *supply.* Until now, supply issues have dominated discussions relating to the black gold. Coupled with stimulated supply from OPEC and other connected parties, oil prices may fall further than some quarters may find desirable. The following three stocks could see their share prices dip in this instance.

Suncor Energy (TSX:SU)(NYSE:SU)

A market cap of $82 billion marks this stock out as one of the most stable energy players on the TSX index. A P/E of 18.7 times earnings is close to market weight, while a one-year past earnings growth of 63.5% beats the Canadian oil and gas industry average for the same period of just 0.5% as well as its own five-year average past earnings growth of -3.4%.

Offering a decent dividend yield of 2.85% and with debt of 39.8% of net worth, this is a high-quality choice. An upward trend in share price adds additional quality to this stock through clear positive momentum; meanwhile, newcomers may want to watch for a value opportunity in the event of lower oil.

Parex Resources (TSX:PXT)

Parex Resources's market cap of $3 billion pairs with a low P/E of 6.7 times earnings to bring investors both quality and attractive valuation. A huge one-year past earnings growth of 7329.7% of 0.5% is almost unheard of on the TSX index and handily beats its own five-year average past earnings growth of 39.9%. It holds no debt, but offers no dividend either.

Its share price is climbing steadily again after a summer dip precipitated by the announcement of unaudited consolidated earnings and operating results. Again, watch for a value opportunity should lower oil spark another share price downturn.

Vermilion Energy (TSX:VET)(NYSE:VET)

A sizable market cap of $6 billion is a good start for this oft-mentioned energy stock. However, it all seems to go downhill from there: a P/E of -80.4 times earnings is a bad sign, and it gets worse with a one-year past earnings growth of -188.3%, which doesn't even beat its own five-year average past earnings growth of -45.8%.

A dividend yield of 6.54% seems an obvious lure and should be weighed against the above figures by anyone looking for low-risk income. A debt level of 61.8% of net worth is by no means the highest on the TSX index, though compares unfavourably with those of the preceding two stocks.

An unstable share price shows that this stock is likely to react negatively to lower oil. While value investors and those looking for passive income may be tempted, a drop in share price may represent a value trap. All told, Vermilion Energy is the least defensive of the three stocks here and the most likely to be affected by lower oil.

The bottom line

With Suncor beating the industry one-year growth average 127 times over, and Parex Resources smashing even that multiple by an incredible amount, you can be sure of defensiveness in these classic Canadian oil stocks. Investors may want to cling to Suncor for defence in the face of economic uncertainty, while newcomers should keep an eye out for value opportunities.

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