Oil-Weighted Stocks Could React Negatively to a “Special-Purpose Vehicle”

Description

With per-barrel prices rocketing on supply fears that continue to circle U.S. plans to bottleneck Iranian oil, investors are bullish on the sector. But is it possible that oil prices may fall further than some quarters may desire later in the year? With a financial mechanism being mulled by the E.U., Russia, and China to side-step American sanctions on Iran, and a drop in demand possible on the back of an ongoing Sino-American trade war, oil prices could fall late 2018.

Volatility is likely to remain in the oil industry

Acting in concert, the world is more than capable of easing supply issues created by sanctions on Iranian oil — but that’s not really the problem; the problem is that any consequently necessary upward correction is unlikely to be backed by the U.S.

Furthermore, oil-weighted Canadian stocks could take a battering if oil prices flounder on a trade war-exacerbated slump in demand. While lower oil prices are sure to be good news for transportation companies and other industries that rely on them, such as supply chain management, energy stocks like **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) may be at risk.

Could this stock beat market uncertainty?

Its base of operations may not seem that diverse at first glance, but by exploring for, developing, producing, and marketing not just crude oil, but also natural gas and natural gas liquids, Canadian Natural Resources has assets in several very lucrative interconnected industries.

A market cap of $52 billion tells you that this stock is well positioned to weather a storm. A P/E of 19.7 times earnings isn’t too bad, value-wise, while Canadian Natural Resources has had a great 12-month period: a one-year past earnings growth of 69.9% smashed the industry average of 0.5% for the same period and completely overtook its own five-year average past earnings growth of -11.5%.

A dividend yield of 3.15% at today’s price pairs well with an acceptable, if slightly high, debt level of 66% of net worth. All told, Canadian Natural Resources is a sturdy-enough stock to hold long term, and newcomers could see a value opportunity if oil prices fall. Competitors, including **Suncor Energy**, **Enbridge**

, and **TransCanada**, could fit the bill if you are looking for an alternative, though be aware that any stock heavily weighted by oil is highly susceptible to changes in per-barrel prices.

If you did want to hang on to Canadian Natural Resources for the next couple of years, you may be pleased to know that it's looking at an expected 20.8% annual growth in earnings. That exceeds the Canadian market average, so if you want a TSX-beating oil stock, then you might just be looking at one.

The bottom line

Are higher oil prices at an end? A "special-purpose vehicle" to provide backup for economic operators wishing to do legitimate business with Iran would effectively remove a bottleneck on Iranian oil, going some way to soothe oil prices, while overall demand for oil could be hurt by U.S. tariffs on Chinese goods among other factors. If oil prices dip, be prepared to see share prices of heavily oil-weighted stocks react negatively.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. TSX:CNQ (Canadian Natural Resources Limited)

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date
2025/08/24
Date Created
2018/09/27
Author
vhetherington