This Could Be a Great Sign for Oil and Gas Investors!

Description

Oil and gas stocks have been struggling in Canada, as higher commodity prices have unfortunately done little to help prospects for the industry's long-term growth.

One reason is the Canadian oil continues to trade at a big discount and so producers don't see a big benefit as oil prices rise. The other is the challenging political climate in this country, where pipelines have been canceled and faced significant roadblocks, with Trans Mountain being the latest example of this.

So it might not have been a big surprise that in the midst of all these challenges and in the face of so much adversity, **Husky Energy Inc** (TSX:HSE) made an offer to buy **MEG Energy Corp** (TSX:MEG). After getting nowhere with the board, Husky got more aggressive and made the offer directly to shareholders in a takeover attempt.

MEG's stock price soared, as many people believed the deal would go through. However, this past week, news came out that the company had rejected Husky's offer. While MEG was not opposed to the purchase, the board is optimistic that there would be other offers, and better ones than the $3.3 billion that Husky offered, which MEG believes is too low.

Meg Chairperson Jeffrey McCaig believes that the company is in a good position for the future, stating, "MEG is now at an inflection point with a low-risk business plan and a clear line of sight to significant free cash flow generation commencing in 2019."

It's a bold move from MEG and shows confidence that the company isn't concerned about its outlook for the future, even though we've seen it post a loss in two of its past three quarters. MEG has also only recorded positive free cash flow in one of the past five reporting periods, so the company is clearly expecting a big improvement from how it has performed recently.

Why this is good for the industry

For years, the oil and gas industry has been plagued with questions regarding which company would be the next to bow out of the industry and close up shop, which could indicate that things have indeed gotten better.

It’s definitely good to see that MEG is doing well enough that it doesn’t feel the need to take any offer that it gets. After all, Husky did offer a pretty big premium from where the stock was trading at, and while it was nowhere near where the stock was back in 2014, it was in line with its three-year highs.

Should you consider buying MEG before its earnings?

With so much optimism about the future, investors may be wondering whether it’s a good idea to buy MEG’s stock ahead of the company’s earnings release, which is expected to be less than two weeks away.

The stock still trades below its book value, and if there’s as much promise as the company expects to see, then it would definitely be a great idea to buy MEG stock not only in the hopes that the company has a strong performance, but that management’s long-term outlook comes to fruition.

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djagielski