Top Stocks and ETFs to Buy if Oil Reaches $100

Description

After tripling in the past four years, could the price of a barrel of oil finally breach the $100 mark? Economists, political analysts, and geologists will collectively give investors one answer: “It’s hard to say.”

Anything from a sudden spike in demand from China or the growing tensions in the Middle East could send the price of this black gold through triple digits. Timing this spike, however, is nearly impossible. Commodity traders and speculators routinely get it wrong. Long-term investors, however, have the benefit of longer time horizons and stable companies with direct exposure to this commodity.

With that in mind, here are the stocks most likely to benefit from a prolonged spike in oil prices.

The usual suspects

Oil explorers and producers are obvious beneficiaries of higher oil prices. Most of these stocks still haven’t recovered from the price crash of 2014-15 and are trading at attractive valuations

Cenovus Energy (TSX:CVE)(NYSE:CVE) is a great example of an energy company with direct exposure to Canada’s oil sands. In fact, it has spent much of the year increasing this exposure, while its stock price languished along with the rest of the industry. The stock has been pretty much flat for the year while still offering a 1.82% dividend yield.

Other attractive energy stocks include **Baytex Energy** (TSX:BTE)(NYSE:BTE) and **TransCanada** (TSX:TRP)(NYSE:TRP).

Baytex is currently making a loss and doesn’t pay a dividend, but the stock trades at one-third of book value, and the company has positive operating cash flow.

TransCanada enjoys a healthy profit margin, offers a 5.38% dividend yield, and is bracing for a few important catalysts (the approvals of KeyStone XL and the new Coastal GasLink) that could drive growth higher in the next few years.

Enbridge (TSX:ENB)(NYSE:ENB) is another pipeline operator and the closest rival to TransCanada. With an acquisition-driven growth strategy and higher dividend yield (6.3%), some investors may prefer Enbridge over its rival.

Off the beaten track

Direct oil producers and pipeline operators are not the only stocks that perform well when oil prices rise. Simple supply-and-demand dynamics suggest people are more willing to look for substitutes when a certain raw material becomes more expensive.

Renewables, like solar and wind generation, tend to experience higher demand when fossil fuels become unaffordable. **Innergex Renewable Energy**, **TransAlta Renewables**, and **Pattern Energy** are all high-yield renewable stocks listed in Toronto. Similarly, companies focused on natural gas may benefit from higher oil prices. **Encana** is a good example.

Investors looking for exposure could also pick an exchange traded fund (ETF) instead of regular stocks. Adventurous investors could go for ETFs that invest directly in oil futures contracts, like **Horizons BetaPro NYMEX Crude Oil Bull Plus ETF** or **Horizons NYMEX Crude Oil ETF**, while conservative ETF investors are better off looking at broader options like **BMO S&P/TSX Equal Weight Oil & Gas ETF** or **First Asset Can-Energy Covered Call ETF**.

A lot of these stocks and ETFs have performed well as oil prices have steadily climbed in recent years. Nevertheless, most are still attractively valued for investors expecting $100 oil soon.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

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2. NYSE:ENB (Enbridge Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:BTE (Baytex Energy Corp.)
5. TSX:CVE (Cenovus Energy Inc.)
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Date
2025/08/27
Date Created
2018/10/23
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