Struggling Oil Prices Make This Stock a Hot Buy

Description

To say that oil prices have been volatile over the past year has been putting it lightly. Over the past year, West Texas Intermediate (WTI) reached over US$75 a barrel only to fall to barely above US$40 just months later. It's becoming increasingly clear that to see strong oil prices OPEC is going to have to make production cuts the new normal, as temporary adjustments are just not going to be enough.

As a result, there's a strong possibility that we could see oil prices dip further, and while it could have a detrimental impact on some stocks, it could have the reverse effect on others.

Cenovus Energy (TSX:CVE)(NYSE:CVE) is one stock that has struggled mightily since the downturn happened. In five years, Cenovus's stock price has fallen around 60%, and despite trading below book value, it has still had a hard time attracting investors. Although it has recovered from a disastrous 2017, which saw a lot of controversy surrounding the company, it still has a long way to go.

A big problem has been that the company's financials have been very erratic, to say the least. In the past five quarters, Cenovus has seen its revenues range from $4.5 billion all the way to $6.1 billion. Only once during that time has the company posted a profit, and it has recorded an operating loss in each of those quarters. For investors to get bullish on this stock, Cenovus will need to start finding ways to stay out of the red, which is going to be hard to do if the price of oil remains volatile.

One industry could stand to benefit

Low oil prices aren't bad news for everyone, however, as they help the airline industry keep its costs low. With fuel being a significant cost of airlines, a lower price will certainly help boost profits, which is what we've seen for some companies already. **Air Canada** (TSX:AC)(TSX:AC.B), for instance, is one stock that has done very well over the past five years since the downturn in oil prices. The stock has soared 450% during that time, and since 2015 Air Canada has recorded a strong operating income of at least $1.1 billion each year.

The stock is trading at an all-time high, and while that might spook some investors, there's plenty of reason to believe that it will continue to soar. With limited competition in the industry, Air Canada is a stock that will benefit from a strong economy where there's more travel for both business and leisure purposes. Although we've seen low-cost providers pop up in the hopes of trying to take away some market share, they've also shown to be inconsistent and unreliable at times.

Just recently, Flair Air announced it was suspending some of its flights to U.S. destinations, leaving many customers surprised and frustrated. And while consumers might not necessarily be big fans of Air Canada, they'll likely appreciate the stability that the airline can offer that discounted ones can't.

Long term, Air Canada looks to be a big benefactor of low oil prices and a strong economy, making it a good buy today, despite its strong stock price.

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Author
djagielski