2 Top Stocks to Help You Ride Out the Volatility of Oil Prices

Description

Volatile oil prices are one of the biggest fears for oil companies. During the month of May, crude oil prices saw a significant decrease, largely due to rising concerns over the trade war between the U.S and China and its effect on demand. However, this doesn't necessarily mean oil stocks are to be avoided. Rather, investors have to carefully select which oil stocks to buy.

Let's look at two stocks that can withstand the volatility in the prices of oil: **Parex Resources Inc** (TSX:PXT) and **Imperial Oil Limited** (TSX:IMO)

A company with a strong balance sheet

Parex Resources has been providing market-beating returns since 2010. Over this period, the energy company's stock has provided a compound annual growth rate of more than 19%. The firm's operations are concentrated in Colombia, and Parex shrewdly selects "jurisdictions with stable fiscal regimes" and rich oil reserves to explore. One of Parex' best qualities is its strong balance sheet.

Given the volatility of the industry, a significant drop in the prices of oil can put many companies out of business — hence the importance of keeping a low debt level, which Parex does an admirable job of. The company boasts an excellent current ratio of 1.48, as well as a very strong 0.16 total debt to equity ratio. Its debt to EBITDA is vanishingly small.

In short, Parex seems well equipped to handle the current shaky economic climate that is weighing on oil prices.

Further, the firm is very cheap, currently trading at a meager 8.02 times past and 8.14 future earnings. That seems like a bargain given the growth it has delivered in recent years. Parex' operating efficiency is also commendable, with a net profit margin that saw an almost 20% surge last year (compared to 2017), and a return on equity in the mid 30%.

Diversified services

Imperial Oil Limited has run into some headwinds recently. At the beginning of the year, Alberta's government started implementing mandatory production cuts on oil companies, cutting oil output by 8.7% or 325,000 barrels per day in order to bolster the price of Canadian oil prices.

As a result, the company stopped shipping crude by rail, which would be a losing proposition given the current circumstances. Imperial is currently facing a problem many of its peers are facing: a lack of pipeline through which to ship crude.

Despite these headwinds, however, Imperial remains one of the better options for those looking to purchase energy stocks. The integrated oil company is the largest refiner of petroleum products in Canada and possesses a diversified pool of services that help mitigate the risk associated with volatile oil prices.

Despite a year-to-year decrease in revenues and earnings during Q1 2019, Imperial hiked its dividends by 16% and offers a dividend yield of 2.44% and a payout ratio that is under 30%. Currently trading at 13 times future earnings, Imperial isn't too expensive either.

The bottom line

Oil prices will always fluctuate, and some companies are better equipped to deal with these fluctuations. Parex Resources and Imperial Oil Limited are two excellent candidates.

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