Are Canadian Oil Stocks a Good Buy Today?

Description

The Canadian energy patch has suffered significant losses in the past five years and contrarian investors are wondering if the bottom might finally be in sight for the sector.

Let's take a look at the current situation to see if oil stocks deserve to be on your buy list right now.

Oil price

Oil prices in the United States and Canada have been on a roller coaster ride in the past year. West Texas Intermediate (WTI) traded as high as US$76 per barrel last summer before tanking to a low near US$42 in late December. A rally in the new year took WTI back above US$66, but a reversal brought it down to recent lows near US$51.

Western Canadian Select (WCS) went on an even wilder ride, traded for US$53 per barrel in July 2018 before falling to US$11 in November before the Alberta government implemented production restrictions to ease the glut due to pipeline bottlenecks. The move helped the market recover, sending WCS back up to US$55 in early April. Since then, it has dropped below US$40.

At the time of writing, oil is once again moving higher, supported by reports that Iran shot down a U.S. drone. WTI is up to US$55 on the news and pundits are trying to decide whether this could be the start of a new rally.

Tension in the Middle East is rising. The United States implemented new sanctions on Iran last fall that are hurting the country, and the U.S. has increased its military presence in the Gulf as a means of protecting its forces in the region and ensuring that oil tankers continue to travel through the Strait of Hormuz. Iran threatened to block the narrow waterway between its coast and Oman after the U.S. ended sanctions exemptions in April for some of Iran's oil customers.

On the other side of the coin, fears that the trade dispute between the U.S. and China could trigger a global economic slowdown are keeping oil prices in check. Thus far, it appears the market sees an economic downturn as a more likely occurrence than a drop in supply from the Middle East.

Canada

The Canadian government just gave the controversial Trans Mountain expansion (TMX) project approval. The pipeline will carry additional Canadian oil to the coast, where it can be sold to international buyers. This should help Canadian producers, such as **Cenovus Energy** (TSX:CVE)(NYSE:CVE) that have booked capacity on the new pipeline.

The federal government currently owns the $7.4 billion project and says construction could begin as early as September. Once completed, TMX will transport an additional 590,000 barrels per day.

Should you buy oil stocks?

Canadian oil stocks appear cheap today. Cenovus, for example, trades at just $12 per share at writing compared to more than $30 five years ago. The company doubled its resources and production when it bought out its partner in a $17.7 billion deal last year, and stands to benefit from the improved access to foreign markets.

The U.S. and China are expected to work out a deal by the end of the year. Should that happens, oil prices could get a lift. At the same time, threats to supply are expected to continue amid the Iran tensions and conflict in Libya.

Oil prices could continue to dip in the near term, but contrarian investors might want to start nibbling on some of the beaten-up Canadian stocks. If oil surges, many of the names could generate significant gains in a relatively short period.

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Author
aswalker