



## Whiplash! Why Energy Stocks Went Crazy This Week

### Description

In the spring of 2018, I'd discussed how [heightening tensions in the Middle East](#) were having an impact on oil prices.

Two of the deadliest conflicts in the 21st century – the Syrian Civil War and the Yemeni Civil War – have served as proxy wars for Saudi Arabia and Iran. Recent events have raised the possibility that the two powers could come into direct conflict.

Last Saturday, two Saudi oil processing plants were hit in a sophisticated attack, plunging oil markets into chaos, as initially this threatened half of the Kingdom's oil production.

On September 16, the price of Brent crude enjoyed its biggest one-day percentage gain since 1988. Oil prices retreated the very next day after Saudi Arabia claimed that crude production would return to normal as soon as the end of the month.

### Canadian energy stocks surge

Energy stocks on the **TSX** had struggled in the summer, but the massive uptick in oil prices made a big impact to start the week. Several top energy stocks [managed to surpass or challenge](#) 52-week highs.

**Cenovus Energy** ([TSX:CVE](#))([NYSE:CVE](#)) stock rose 12% on September 16. Shares would retreat 3.3% the very next day, but Cenovus still managed to open the week nearing its 52-week high.

The company is set to release its third-quarter results in late October. In the second quarter, Cenovus saw net earnings rise to \$1.45 per share compared to a \$0.33 loss in Q2 2018.

Cenovus benefited from higher realized prices, although production was down 11% as Alberta's curtailments weighed on operations.

**Encana** ([TSX:ECA](#))([NYSE:ECA](#)) rose 16.3% on the same day. The stock dropped 6.5% the next day and failed to climb to the middle of its 52-week range. The company posted a \$336 million profit in the

second quarter and net income grew to \$0.24 per share, compared to a \$0.16 loss per share in Q2 2018.

Encana reported it was on track to meet production forecasts and announced that it was on pace to reduce costs more than expected. The stock boasts a favourable price-to-earnings ratio of 4.5 and a price-to-book of 0.7.

**Baytex Energy** ([TSX:BTE](#))(NYSE:BTE) enjoyed the largest bump of the day. Shares jumped 16.5% on September 16 before falling only 1.7% on September 17. This uptick allowed Baytex to draw some distance from its 52-week lows, but it's still trading at the low end of the year-long range.

In its second-quarter report, Baytex saw production exceed the high end of its guidance at 98,402 barrels of oil equivalent per day. Baytex reduced net debt by \$147 million in the quarter and adjusted funds flow exceeded its capital expenditures.

## Oil prices and the future of the Iran-Saudi conflict

Investors should not expect the violent price action we saw at the beginning of this week to become the norm. Saudi Arabia quickly squashed any notion that its production would be severely hindered in the wake of the attack.

Officials in the United States and Saudi Arabia have pointed to Iran as the culprit, but we are still in the evidence gathering stage.

Erupting tensions between Iran and Saudi Arabia has the potential to escalate into a region-wide military conflagration. This would have significant consequences for global oil supply. Investors with a stake in energy should be watching developments closely as we move into the fall.

### CATEGORY

1. Energy Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:CVE (Cenovus Energy Inc.)

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