This Bad News Is Sending Energy Stocks Lower!

Description

The lending environment is looking worse for Canadian energy stocks, which have already been beaten down in the past year. The European Investment Bank, the major lending department of the European Union, announced that it would stop funding fossil fuel projects in as little as two years. Less willingness to finance fossil fuel projects marks the end of the oil era.

Canadian investors should take the same policy stance as the European Investment Bank and choose to no longer finance oil projects. Stock market investments in non-renewable energy will result in negative returns. Your retirement account deserves better than negative capital gains, no matter how high of a dividend the stock offers.

Black gold turns to rust

Oil has been a vital and highly profitable resource in the 20th century. Since the industrial revolution, the non-renewable substance has fueled inventions such as cars, aircraft, and wars. Pipelines and strategic global territories have been the source of substantial geopolitical tension between countries.

Today, renewable energy sources like wind and solar power are expanding quickly in Europe and Asia, and the entire fossil fuel industry will more than likely go extinct within the next decade.

Encana (TSX:ECA)(NYSE:ECA) stock is lucky to still qualify for listing on the TSX. The stock was down 43% to $5.75 from $10.22 in November 2018. Canadian incorporation has become so unfavourable that Encana will relocate its headquarters to Denver, Colorado, and undergo a re-branding under the name Ovintiv.

Less access to long-term financing in Canada is the primary driver for Encana to move to the United States. The company believes that it will have greater access to long-term investors as a U.S.-incorporated entity.

Encana gets bullish on U.S. energy

Canada’s energy industry is losing steam, but Encana seems bullish on U.S. prospects. The move to the U.S. will place the company closer to Texas oil, including **Exxon**, which has also sent positive signals on the U.S. oil industry.

The move to the U.S. may also have something to do with the higher regulatory requirements in Canada relative to the U.S. The Canadian government plays a significant role in dictating oil production volume among the oil and natural gas corporations. Encana may simply not want to play by Canadian rules anymore.

Encana won’t take much of a hit on its corporate tax rate. The U.S. tax rate has become more favourable since current U.S. president Donald Trump took office in 2017. The difference in the base rate in the U.S. versus Canada is only 0.50%, meaning Encana’s foundational tax burden will only increase by a small fraction of what it currently pays.

Political agenda transitions to climate change

Encana’s move to the U.S. will probably not be enough to save the company from declining profits. The demand for oil is sinking, and society is replacing it with renewable sources. Public announcements of withdrawing support for debt financing of energy projects is proof that the age of oil has come to an end.

Although it may be tempting to want to join in speculating on oil volatility, everyday Canadian investors should stay away from this sector and instead buy into high-dividend-paying bank, insurance, and telecommunication stocks.

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debraray