



2 Major Things to Consider if You're Thinking of Buying Canadian Oil Stocks

Description

TC Energy's Keystone Pipeline is back up and running, and for Canadian oil companies that rely on the pipeline to export their oil, the crisis has been averted.

Now, however, there is a new issue that could affect oil companies in Western Canada, with the strike at **CN Rail** looking like it could cause problems.

Although the main industry that will be affected by CN Rail's strike is the agriculture and crop businesses across Canada, the company is still responsible for exporting roughly 150,000 barrels a day, which will make an impact.

This may not seem like all that much given it's about a quarter of the capacity of the Keystone Pipeline; however, if this becomes prolonged, it could be devastating to the industry.

The discount between Western Canadian Select and West Texas Intermediate has already narrowed in the last few days, but investors could see a reversal if the strike really does impact exports.

That isn't the only thing that is dampening investors' moods and keeping the stocks depressed.

It's also important to note that we are right in the midst of tax-loss selling season, so many of these stocks, especially the ones that have performed poorly in 2019, will see increased selling pressure over the next few weeks.

Investors who have considered buying an integrated oil company such as **Suncor** don't have to worry about either of the problems necessarily. Suncor's integrated nature protects it from widening differentials, and its stock is mostly flat for the year.

It is the pure-play oil producers who are most at risk, and since most of the companies will start to look attractive as they are sold off further, investors need to demonstrate restraint and patience to buy these stocks at more opportune levels, when they have been sold off into December.

One stock that has clearly been affected by [tax-loss selling](#) is **Baytex Energy** ([TSX:BTE](#))(NYSE:BTE).

Baytex stock is down roughly 40% year to date and has been under pressure so far this week, with its stock down more than 10% from Friday's close.

Roughly 83% of its production is weighted to oil and natural gas liquids, so it's obvious that it's seeing pressure from headwinds facing the stocks in the industry.

Baytex produces close to 100,000 barrels of oil equivalent per day and has a solid mix of heavy oil, light oil, natural gas, and natural gas liquids.

It's a strong company, especially financially, and has already reduced its net debt by 13% this year. Currently, its debt stands at just below \$2 billion, and Baytex estimates at year end, it will have a 2.2 times net debt to adjusted funds flow ratio.

It's focused on becoming a top-tier oil producer in North America, with returns between 10% and 15% for investors annually.

What's important to note is, roughly 15% of its production is moved through crude by rail. Normally, this reduces pricing volatility for Baytex and helps to manage differentials; however, given the strike we've already talked about, it's something to keep in mind if it's not resolved quickly.

What makes Baytex attractive relative to some of its peers is that close to 40% of its production comes from Eagle Ford, which is located in Texas, and mitigates some of the takeaway capacity issues that may arise.

Baytex is clearly a strong operator, it's stock just has some headwinds to face over the next couple of weeks. If you are interest in investing, though, I would hold off until it bottoms in early to mid-December, then gain exposure ahead of the new year.

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Author

danieldacosta

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