4 Riveting Reasons Why Imperial Oil (TSX:IMO) Stock Could Remain Bearish in 2020

Description

Imperial Oil (TSX:IMO)(NYSE:IMO) is Canada's second-largest integrated oil company. It has been long known as a Dividend Aristocrat. However, it looks like Imperial Oil may not live up to this reputation anymore. Its stocks have been in a bearish mode for quite some time now.

If you are mulling over buying stock in Imperial Oil due to its impressive history of dividend payouts, think twice and look at its stock performance for the last 12 months. Last year around this time, the stock price of Imperial Oil was about $35. One year later, the price is still swinging in a $33-34 range, and we could witness the same trend in the next year.

What are the reasons behind this continuous bearish performance of Imperial Oil's stocks that have done exceptionally well in the past? Let's try to make sense of it.

"Black" gold rush is over

There was a time when $100 had become a yardstick for the per-barrel oil price. Now, this price point seems almost unreal. Oil prices have plummeted continuously in this decade and have been fluctuating around US$40-70 per barrel for the last five years or so.

Experts think that this is the "new normal" of the petroleum landscape. With burgeoning alternative energy options and without any unusual demand spike for petroleum, a price hike seems unlikely. This development eventually leads to Imperial Oil not generating enough profits to revitalize its stocks.

Imperial's "oil sand" profile increases costs

Imperial Oil is categorized as a oil sand company, because it primarily deals with crude bitumen, and the yield of crude bitumen is usually of low quality. On top of that, its extraction and refining requirements involve more resources, slapping the final product with an noncompetitive price tag.

The higher processing cost of oil sands means Imperial Oil has to break even by selling at relatively higher prices. With such an unavoidable constraint in the backdrop, the never-ending depression of the oil industry will also raise questions regarding the financial viability of Imperial Oil. And no company can turn bullish when its very existence is in danger.

Pipeline shortage making it worse

Pipelines can keep the logistics of moving crude oil from excavation sites to refineries in check. Moving crude in trucks and rails is expensive, risky, and not worth the effort when international oil prices are already low. The petroleum pipelines in Canada are dwindling, which is also making it worse for companies, including Imperial Oil, to boost its profits.

Oil super-majors are in contingency mode

Take a look at the petroleum giants around; the ones that heavily rely on sand oil for its production capacity have started preparing for the market crash. Giants like French **Total SA**, British-Dutch **Shell** , and American **Exxon Mobil** are de-risking their portfolios by selling billions of dollars of high-cost assets. Imperial Oil will ultimately catch on to this precautionary trend.

Selling assets may result in a fleeting bullish drift. But that’s just it. It won’t reverse the depression that has been there for too long now.

Summary

I am not saying that the petroleum industry is near its demise or asserting that its crash will happen overnight. However, it looks almost certain that its best days are behind it. It is unlikely that we will see the bullish oil streak of the last decade again. We can say the same for Imperial Oil, whose stocks have been in the bearish mode for more than five years.

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Date
2025/08/21
Date Created
2020/01/04
Author
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