Warning: Coronavirus Will Demolish Oil Prices and Stocks in 2020

Description

The price of oil is set for a painful correction, as demand from the world's most populated country and the second-largest economy wanes.

Goldman Sachs commodity strategist Damien Courvalin believes a sudden downturn in demand from Chinese consumers, coupled with a lack of clarity on production cuts from major oil-producing nations, could lead to a build-up of 18 million barrels of crude oil in inventory, four times the team's initial estimate.

A spike in inventory and a lock-down in the world's second-largest economy is likely to put downward pressure on the price of crude oil, which puts Canada's economy in a difficult position. Some of the top TSX dividend stocks are energy companies, and a downturn in the oil price could have a devastating effect on investor portfolios across the country.

Here are two oil stocks that seem to be the most vulnerable to this imminent correction.

Baytex

Companies like oil and gas giant **Baytex Energy** (TSX:BTE)(NYSE:BTE) were probably counting on a recovery in the oil market this year. Baytex's management team expected a barrel of West Texas Intermediate (WTI) crude to trade at $60 sometime this year. At the time of writing, WTI crude is trading at $52.3, far below the company's target.

If the coronavirus pandemic spreads further and demand for oil falls off a cliff, Baytex could be in for a rough ride ahead. The company's debt burden seems to be a major concern for investors. Baytex has plenty of debt obligations due over the next few years.

The company is expected to pay back US$400 million in 2021, $300 million during 2022, and another US$400 million in 2024. If the average price of crude oil remains below its target of $60, meeting these obligations could become difficult. As a consequence, the stock price has dropped 22% since the start of this year.

MEG Energy

MEG Energy (TSX:MEG) looks like yet another vulnerable oil and gas stock. The company has a jaw-dropping $3.3 billion of long-term debt outstanding. That's six times larger than the funds the company generated from operations over the past 12 months.

My Fool colleague Ryan Vanzo estimated that the company needs crude oil to trade at US$50 per barrel to break even. Although the current market price is slightly higher than that, it might not be enough to cover MEG's hefty debt burden and interest payments.

The company now needs to cut costs drastically and diversify its business model away from the oil sands of Alberta. However, if the price of crude oil collapses rapidly over the next few months, the company might not have enough time left to save itself. The stock has lost roughly 6% since the start of the year and could be facing deeper losses ahead.

Bottom line

The price of crude oil hinges on global supply and demand dynamics. Now that millions of Chinese citizens are on lock-down to control the spread of the coronavirus, demand for energy could take a substantial hit. This may impact oil companies with high leverage, such as Baytex and MEG Energy.

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