Market Crash: Are There Any Oil Stocks Worth Owning?

Description

Oil stocks are suffering through the most pronounced bear market in over a decade. The downturn began in early 2019 and the spread of COVID-19 has accelerated the collapse of the industry.

Over the weekend, we also got wind of a price war, as Russia did not support a cut in production to support oil prices. Russia took aim at American producers, saying, "The Kremlin had decided that propping up prices as the coronavirus ravaged energy demand would be a gift to the U.S. shale industry.

The frackers had added millions of barrels of oil to the global market, while Russian companies kept wells idle. Now it was time to squeeze the Americans."

In response, Saudi Arabia slashed the price of Arab light by the most in over 20 years. It will be a tough go for North American oil stocks, and investors would be wise to alter their portfolio accordingly.

First and foremost, are there any oil stocks worth owning at the moment? The demand for oil is expected to crater due to COVID-19 travel restrictions, but long-term it is still on an upwards trend. This too shall pass.

In the meantime, it's best to keep your money invested in oil stocks best positioned to navigate a prolonged bear market with such stocks such as **Suncor** (TSX:SU)(NYSE:SU) and **Canadian National Resources** (TSX:CNQ)(NYSE:CNQ).

Suncor

Not only is Suncor one of the largest oil producers in the country, but it's also one of the most diversified, with a network of upstream, midstream and downstream operations. Why is this important?

In a low price environment, downstream operations provide support to the upstream operations. When the price of oil drops, upstream (production) margins shrink as the costs to produce are fixed.

On the flip side, downstream fare better, as their margins remain relatively stable.

Why? The cost of crude oil is lower, offsetting the lower selling prices.

Through the Petro Canada brand, Suncor has a network of over 1,750 gas stations and 300 wholesale sites throughout Canada. Even when the price of oil hit a record low in 2016, the company had enough funds from operations to cover the dividend and sustaining capital.

This has allowed the company to grow the dividend despite a difficult pricing environment. It is a Canadian Dividend Aristocrat with an 18-year dividend growth streak. It last raised dividends by 10.71% in February. Simply put, it is one of the best oil stocks in the country.

Canadian Natural Resources

Canadian Natural Resources is a cash generating machine. As one of the lowest cost producers in the industry, the company generated record cash flow of $10.2 billion in 2019. Free cash flow was a record $4.6 billion, and this was after accounting for capital expenditures (CAPEX) of $3.9 billion and dividends of $1.743 billion.

Given the recent pressure on oil prices, the company is reducing 2020 capital expenditures by approximately $100 million. The reduction will have no impact on production guidance. This is an example of how it can adapt to a low price environment.

As we've seen above, the dividend is well covered by cash flows. It's therefore not surprising that the company raised the dividend by 13.3% last week.

The raise extends the dividend growth streak to 20 years. Canadian Natural is one of the best positioned to not only sustain, but also to grow the dividend in a low price environment.

CATEGORY

1. Dividend Stocks
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