



Market Crash: Are Canada's Top Energy Stocks Doomed Forever?

Description

The coronavirus-induced [market crash](#) has raised a serious risk for many Canadian oil and gas companies going bankrupt in the days to come. The sudden collapse in the stock prices of top producers is certainly reflecting that possibility.

The math behind this doomsday scenario is quite simple. The world is going through a shock, which is probably the biggest since the global financial crisis in 2008. The oil and gas companies in Canada are seeing demand crushed, as the governments shut down their borders, businesses are forced to close, and factories sitting idle to fight the deadly coronavirus pandemic.

That sudden market crash has forced the leading oil producers — Saudi Arabia and Russia — to defend their share and engage in a devastating price war. After more than 60% plunge in crude oil prices this year, signs of stress due to the oil crash are being revealed in the Middle East and other parts of the world. Canadian oil is at a record low, and some North Sea fields are becoming uneconomic.

What does this market crash mean for some of the top Canadian energy stocks? Will they be able to survive?

These are the fears that are haunting investors in energy markets and for which there is no clear answer yet. It seems that energy companies' fates will be decided by politicians in the short run.

Political intervention

Oil surged yesterday, rising 24%, after U.S. president Donald Trump hinted he could get involved in the standoff between Saudi Arabia and Russia.

"It's very devastating to Russia, because the whole economy is based on that, and they have the lowest prices in decades," he said. "I would say it's very bad for Saudi Arabia. But they're in a fight, they're in a fight on price, they're in a fight on output. At the appropriate time I'll get involved."

But that rebound may be temporary, unless this intervention is quick and both Russia and Saudi Arabia agree to cut their production substantially to lessen the impact of this crash in market demand.

Another short-term relief that [Canadian oil producers](#) are likely to get is from the government, which, according to a report in the *Globe and Mail*, is preparing a financial relief package for the industry to help it survive through this market crash and a subsequent recession.

According to the report, the oil and gas sector can expect to get more access to credit, especially for struggling small- and medium-sized operations, and significant funding to create jobs for laid-off workers to clean up abandoned oil and gas wells.

Likely survivors?

In this highly dismal situation for the energy sector, there will be very few companies that will be able to make money when prices have fallen so low. The coronavirus is likely to suppress world demand for months to come, perhaps even longer, depending on its intensity.

In my view, top energy companies like **Suncor Energy** and **Canadian Natural Resources** have more chances to get through this crisis. Some of the highly leveraged companies are likely to go under if oil prices remain so low.

Another casualty of this crisis will be dividends that will be cut. The payouts of some companies are not sustainable in the current climate.

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