Why You Should Invest in This Screaming Canadian Oil Buy Now

Description

The beginning of 2020 now looks more like 2014. Many investors may get nightmares reminiscing about just how bad things got then. They may also worry about his bad things may potentially get this year in the Canadian oil patch. Many recognizable oil players on the Toronto Stock Exchange (TSX) continue to get hammered day in and day out. Many such companies are experiencing declines of 90% or more in the past five years, driven by commodity price volatility.

Price of oil is plummeting

At the time of writing, the commodity price of oil has been hit extremely hard, being cut roughly in half. This is based on concerns about an impending global supply glut as a result of Saudi and Russian tensions. Russia has shown a lack of willingness to cut production in a bid to support the price of oil via an OPEC+ agreement. This has turned into a dangerous game of economic chicken. North American production has gotten hit the hardest due to the relatively high cost of Canadian and American oil sands/shale production compared to Saudi and Russian low-cost Brent production.

Many Canadian investors continue to wait for meaningful Federal government intervention for Canada's energy industry. But unfortunately, the oil patch happens to be located in Alberta and not Quebec.

Jokes aside, the reality is that Canadian producers make up such a small percentage of the global oil market. Therefore, they do not have any sway with respect to oil prices and are what economists call "price takers." Canadian oil producers make an inferior grade of oil relative to Brent or WTI. This means investing in Canadian oil has turned out to be a disastrous game in recent years with an increasingly bleak outlook in the years to come.

Freehold Royalties

Companies like **Freehold Royalties** (TSX:FRU) may not be able to sustain its dividend payout below $45 WTI. Investors are currently avoiding such companies in this current climate. Here's why I think they're wrong.

I think Freehold Royalties is a misunderstood company for a few reasons.

First, many investors do not have a solid grasp of the difference between royalty companies and producers. They tend to lump the two together. The drop in the price of oil is likely to impact Freehold's business indirectly. Royalty streams slow down due to production curtailments by producers. However, royalty streams are far less exposed to the price of oil than equity or bonds tied to the oil patch.

Second, when oil producers are in financial distress, as they are now, such companies are far more likely to sell royalties to a company like Freehold. This offers Freehold and other royalty companies the opportunity to name their terms on such contracts.

If you're an investor who believes this "lovers' spat" between Saudi Arabia and Russia is likely to be short-lived and the price of oil is likely to stabilize at some higher level in the medium term, then getting in now in a company like Freehold is a much safer way to play Canada's oil patch than gambling on oil prices with highly levered oil sands producers.

Stay Foolish, my friends.

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1. TSX:FRU (Freehold Royalties Ltd.)

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chrismacdonald