Oil Below $0: Should You SELL Canadian Energy Stocks?

Description

Yesterday, crude oil prices turned negative, as West Texas Intermediate (WTI) futures for May delivery fell as low as $-37 a barrel. The negative prices were due to crude oil accumulation at storage facilities. With storage tanks reaching maximum capacity, it became costly to physically store oil; as a result, sellers were effectively paying buyers to take their oil from them.

Recently, *Gizmodo* reported that oil companies were storing barrels of oil at sea at phenomenal expense. The accumulation was due to tanking global demand for oil, with air travel and other energy-intensive industries virtually shut down in the wake of COVID-19.

While yesterday's negative oil prices were mainly seen in WTI crude, there were reports of Canadian crude turning negative as well. For example, *Forex Live* reported than Edmonton C5 oil was selling for as little as $-4.68 per barrel.

It goes without saying that none of this is good news for the Canadian oil & gas industry.

The question is, should you sell your oil & gas stocks now, or hold on for a recovery?

Unprofitable to extract crude

The most crucial thing to be aware of is that with oil prices in the minus territory, t's not profitable to extract and sell crude oil. According to a recent *Financial Post* article, tar sands companies need $55 WTI to break even. At typical discounts, that would mean about a $40 price for Western Canadian Select.

According to *Oil Price*, Western Canadian Select is currently going for $5 a barrel — nowhere near the breakeven price. As a result, even integrated companies like **Suncor Energy** that sell directly to consumers will struggle to generate profits in this environment.

Significant exports to the U.S. unlikely

The truly alarming implication of negative oil prices in the U.S. is the effect on midstream companies. Typically, midstream pipeline companies like **Enbridge Inc** (TSX:ENB)(NYSE:ENB) are less sensitive to oil prices than extraction companies.

The reason is that they make money off of shipping fees rather than direct oil sales. However, these companies can't make money if oil isn't being shipped. And right now, it's going to be hard to convince any American buyers to purchase Canadian crude.

As mentioned, the reason American oil prices are turning negative is because oil is accumulating in storage. With demand down, producers have pumped more oil than customers need, and large reserves of oil are going unused. Amid this environment, the U.S. won't be importing much crude oil.

This is bad news for companies like Enbridge.

ENB's pipeline stretches all over North America, with much of its shipments going to the U.S. Midwest. With demand way down, oil exports to those states will fall. This hits Enbridge in the pocketbook, because less oil shipments mean less shipping fees.

The company also has to contend with Canadian oil producers shutting down operations. According to *Oil & Gas Middle East*, Canadian oil companies have shut down 1.14 million barrels worth of daily production.

That means less oil to ship, and again, less business for Enbridge. If this situation persists, it will be bad news for ENB shareholders.

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Date
2025/08/15
Date Created
2020/04/21
Author
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