



Oil Collapse: 1 Cheap Stock for Commodity Addicts

Description

What's the best way to make a million dollars, you ask? Take twenty million dollars and invest it in the Canadian oil and gas sector. Well, if you're anything like me being a contrarian glutton for punishment, you just can't help yourself as you look at this space. I mean, it is a cheap sector that has gotten even cheaper. These companies are practically being given away at the moment.

Seriously, many of these stocks are trading at about one-tenth of their book values. The [situation is dire](#), there is no doubt, which is why these stocks are trading at such a very low level. Nevertheless, it seems to me that they are too cheap to avoid altogether. If you have the stomach and the time horizon to ride out this rough patch, you may do very well with these companies.

A cheap oil stock

I thought **Whitecap Resources Inc.** ([TSX:WCP](#)) was cheap when it was at \$8 a share. I thought it was even cheaper when it was \$4 a share. And yes, I think it is cheaper yet at today's price of about \$1.50 a share. The good news (if you can call it that) is that this stock keeps letting you buy more of it at even lower levels.

Many of the factors that held true for the company before the oil price collapse still hold true today, except for the assumptions regarding the dividend. Whitecap insiders are still buying up shares. It still owns great Western Canadian assets and is also still paying its dividend.

Whitecap's yield is currently about 12% a share. Although that's extremely high, the company confirmed April's dividend recently, so it appears the yield is still in place for now. This [dividend was reduced](#) in March from \$0.0285 to \$0.01425 in order to strengthen its financial situation in this period of uncertainty.

Whitecap has no near-term debt maturities until 2022, so it has some breathing room to ride out the economic storm. The company also has 44% of its estimated crude oil production protected for 2020 at an average price of \$65.18 a barrel.

Why pay a dividend?

While I'm glad to get some yield from a position, at this stage in the game I'm wondering why oil companies are paying dividends at all. In some respects, it seems to make sense to use all its cash to buy back shares, pay down debt, or pick up assets at rock-bottom prices. Buying back shares especially seems to be a good idea at this level as they are trading ridiculously cheap.

The bottom line

I feel seriously gut-punched by the sector — a feeling most oil investors share at the moment. While I've largely gone to large-cap stocks at the moment, but I can't help but feel the need to open a high-risk position in these smaller names.

They simply have too much future potential to avoid them altogether. Energy stocks also have the added benefit that you can use these stinkers as a tax write-off if they don't pay off.

Don't count on energy dividends at the moment. That's not the reason to buy these stocks since they are being cut left and right. These dividend cuts are probably for the best, as these companies need to preserve their capital.

Oil companies like Whitecap are too attractive to avoid altogether. Personally, I think it will pay to have some exposure to these companies in the long run. Just don't bet your life savings on them.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:WCP (Whitecap Resources Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Date

2025/07/22

Date Created

2020/04/23

Author

krisknutson

default watermark

default watermark