Canada’s Oil Market Crash – Is This Energy Stock a Good Buy?

Description

This week will probably go down in history as one of the most brutal periods ever faced by the oil and gas industry.

After months of bad news, last week the industry received some good news that the Canadian government would financially assist the struggling industry. Some believed that the worst might be over, with a potential end in sight to rising cases of the coronavirus, and possible easing of the stay-at-home orders. Plus, there were signs of headway being made by OPEC.

But then, the unimaginable happened.

The price of a barrel of oil fell below zero. As many were trying to understand the implications of negative oil prices, the stock prices of oil and gas companies were getting hammered.

Tourmaline Oil Corp

Even as the prices of energy stocks were getting crushed, the share price of natural gas producer **Tourmaline Oil Corp.** (TSX:TOU) was rising. Patrick O’Rourke, an analyst at AltaCorp Capital, noted the strength in the natural gas curve resulting from the decline in oil. This trend has been benefiting energy stocks like Tourmaline.

Tourmaline is Canada’s largest natural gas producer. Since beginning operations in 2008, the Calgary-based company has maintained an aggressive acquisition, exploration, and development program. Over the past decade, Tourmaline has assembled an extensive undeveloped land position with a large, multi-year drilling inventory in the Western Canadian Sedimentary Basin.

As of this writing, shares of Tourmaline are trading at $12.72, down from $15.08 at the beginning of the year. The company has a current dividend yield of 3.77%.

Financials

For the full year and fourth quarter of 2019, Tourmaline reported earnings of $319.7 million. The company's free cash flow for 2019 of $144.9 million was a 27% increase over 2018. The fourth quarter free cash flow of $67.1 million represents an annualized free cash flow yield of approximately 8%.

Similar to many companies in the industry, Tourmaline uses this cash to expand operations. Prior to the decline in the industry, the company had planned to continue its aggressive acquisitions, but contained its capital spending to $1.29 billion last year. This number was up only 6% from 2018.

The company also used its free cash flow to buy back over 1,000,000 shares in 2019 at $12.23/share. The company plans to continue this practice if distressed valuations continue.

The bottom line

Despite government intervention and glimmers of hope regarding the coronavirus, there are still many unknowns facing the oil and gas industry.

Even if the number of COVID-19 cases continues to decline, until a cure or a vaccine is discovered, Canadians may not feel safe venturing far from their homes — a trend could suppress the demand for oil and gas for a long time to come.

Investors wanting to cash in on the fire-sale prices of oil and gas stocks may want to stick to companies that produce natural gas. Even then, investors should approach with care.

Despite some analysts predicting a shortage of natural gas in America by 2021, O'Rourke appears more reserved. As he noted, "The enthusiasm (over natural gas) comes with some caution, however, as there's a lot of gas throughout North America."

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