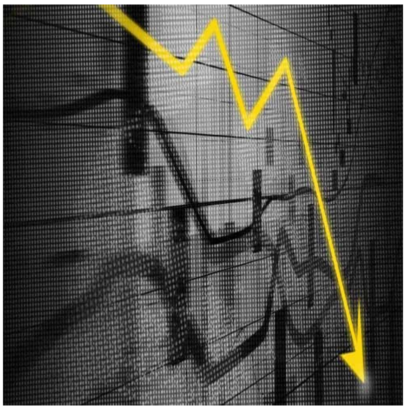

Oil Price War: Why NFI Group (TSX:NFI) Stock Fell

Description

Demand for oil has gone off a cliff due to the global COVID-19 crisis. As a result, gas prices have hit historically low levels. The price war between Saudi Arabia and Russia has undoubtedly worsened the problem.

As oil prices sink, very few investors will spend their money to maintain North American oil operations. According to an article published by *Aljazeera*, North American oil companies need to fix oil prices at $40 per barrel (at a minimum) to meet operational costs: "'Shale companies need prices at least in the low $40s per barrel to cover direct costs,' said Ian Nieboer, a managing director at consultant Enverus. If U.S. prices remain at a low-$30-a-barrel range, 'it starts to look more lethal,' he said."

The price war, which failed to end at the beginning of April, is acting to reduce supply, even as Russia and Saudi Arabia drag their feet. North American producers are now forced to decommission oil wells to cut costs and avoid losses. Many are also postponing new investments.

What do low gas prices mean for alternative energy?

The change in the price of oil will only affect alternative energy in the short term. Nevertheless, stocks like the **NFI Group** (TSX:NFI), also known as New Flyer, will outperform oil stocks in the long run. Alternative energy is the future; the benefits of this technology extend further than just monetary savings.

Alternative energy will reduce carbon emissions and protect the environment for generations. Health-conscious millennials especially view renewable technology as a priority — hence, that's why millennials prefer stocks like **Tesla** over **Exxon Mobile.**

Whether you are nearing retirement or just starting to save for your golden years, NFI Group stock is your best bet at enjoying that time. Before the COVID-19 crisis and oil price war began, New Flyer stock was quickly picking up speed relative to the **S&P/TSX Composite Index**. Today, the stock price is nearly 44% lower from where it began at the start of the year.

Given the firm's limited competition in the electric bus space, I would definitely recommend this stock to all Canadian investors. When the crisis is over, I would not be surprised if New Flyer regained the same steam that it exhibited at the beginning of the year.

Why did the stock value fall during the COVID-19 crisis?

New Flyer stock lost value during the COVID-19 crisis for two reasons.

For one, relative valuations changed. The price of New Flyer stock had to drop in sympathy with other publicly traded companies. When the price of one asset changes, substitute assets must change along with it, even if other factors mute the effect.

Secondly, historically low gas prices have dampened the appeal of alternative energy technology in the short term. Thus, investors now view New Flyer as a risky asset.

As explained above, low gas prices will only temporarily reduce investment in alternative energy technology. Investors will soon find the relatively higher prices of electric vehicles as a solid source of profit.

Moreover, if renewable technology is going to succeed, it will inevitably have to compete with low gas prices. As renewable technology takes off, demand for oil will fall, which will drive down prices for the commodity.

In a sense, North American oil has no future. The future favours electric vehicles, like the electric buses manufactured by New Flyer.

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