3 Oil Stocks at High Risk of Dropping to ZERO

Description

The once-vaunted oil and gas sector in Canada is struggling to stay alive, as oil prices keep declining to historically low levels. Some free-falling oil stocks are at risk of dropping to zero.

Holding bay

On May 1, 2020, **Baytex** (TSX:BTE)(NYSE:BTE) closed at $0.44. The year-to-date loss is now a jarring 76.5%. At the rate the stock is sinking, Baytex is on track to hit its 52-week low of $0.27. The market cap is down to $243.89 million as well.

About 83% of this Calgary-based oil and gas company's production is weighted toward crude oil and natural gas liquid (NGL). The concentration of crude oil development and production are in the Western Canadian Sedimentary Basin and the Eagle Ford in the U.S.

Drilling operations have been stopped. There will be no more drilling in 151 net light oil wells and 43 net heavy oil wells for the rest of this year. Baytex's spending will be dependent on changes in the commodity price environment.

Management will limit exploration and development expenditures up to $290 million instead of $575 million. Its liquidity position might fall to only $150 million by year-end.

Losing torque

TORC's (TSX:TOG) share price of $1.04 as of May 1, 2020, is 76.1% worse than its 2019 year-end price of $4.36. This $230.68 million petroleum and natural gas producer has also slashed dividends effective April 15, 2020.

The Canada Pension Plan (CPP) has significant holdings of this oil stock. TORC is known to have a high-quality asset base and has been successful in operating conventional wells. But the rapid decline in global oil prices is altering operations.

Management is currently conducting a thorough review of TORC’s capital program vis-a-vis the recent market events. As an energy producer, its near-term liquidity position is under threat. Prudent strategies should protect the company’s balance sheet.

TORC’s asset base will help provide operational flexibility in terms of matching cash flows with spending. The low decline rate, low capital cost per well, and no drilling commitments are among the advantages that would prevent TORC from sinking deeper.

Scrimping resources

Dividend all-star **Whitecap** (TSX:WCP) is fast losing its appeal to income investors. This $729.12 million company is struggling too on the TSX. Its shares are down 66% and trading at $1.78, as of this writing.

Before the health and economic crises exploded, Whitecap was standing on a strong financial position. The company has a $1.77 billion total credit capacity. But when it reported Q1 2020 earnings results, the net loss for the quarter was $2.1 billion. The significant decrease in oil prices is causing severe financial dislocation.

Whitecap has announced a 44% reduction in its 2020 capital program. The company will be spending between $200 and $210 million instead of $350 to $370 million this year. This reduction aims to fortify the balance sheet as well as strengthen the financial position.

By the end of 2020, Whitecap expects production to decline by 13-15%. Management remains hopeful that its premium assets can generate positive cash flow notwithstanding the low crude price environment.

Coming insolvencies

Oil insolvencies are coming in 2020. Don’t take risks and avoid likely candidates Baytex, TORC, and Whitecap.

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