Should You Buy, Sell, or Hold Oil Stocks Right Now?

Description

The oil and gas industry in Canada is one of the country's economic growth drivers. It offers a wealth of opportunities to investors. But that was yesterday. Today, the industry is in terrible shape. Taking a position is very risky. Many are asking if they should buy, sell, or hold oil stocks in 2020.

If you asked me, my gauge would be **Enbridge** (TSX:ENB)(NYSE:ENB) and **Suncor** (TSX:SU)(NYSE:SU). I won't look at other oil stocks except for the industry giants. More or less, the performance of these companies will indicate if the sector can regain its lost glory.

Still standing

Enbridge is not an oil producer but a top-notch pipeline operator. In its latest earnings report, the company posted a net loss of $1.43 billion in Q1 2020. The net loss was non-cash charges and did not affect the vast majority of the EBITDA.

Despite the turbulent quarter, Enbridge was able to deliver stronger-than-expected results. Its pipeline operations remain a vital cog. Likewise, the business model is proving resilient again. It insulates Enbridge from near-term fluctuations in commodity prices as well as volumes.

Although Enbridge is deferring capital spending ($1 billion) and cutting costs ($300 million), it's not altering the 2020 full-year guidance. There are no plans to implement employee layoffs.

The good news for investors is that you don't need to ditch this stock. Enbridge can afford to pay, not cut, the 7.26% dividend. You're standing on rock-solid ground.

Struggling king

Canadian energy producers, including oil sands king Suncor, are having a very rough year. From $16.43 on March 27, 2020, the stock climbed 61% to $26.47 on April 29, 2020. However, as of this writing, Suncor shares are trading at $23.83. Year to date, the stock is losing by 43.3%.

Recently, Suncor implemented a dividend cut. If you scoop it today, the dividend yield is 3.53%. This $36.34 billion company reported a $3.525 billion net loss in Q1 2020. In the same period last year, Suncor delivered net earnings of $1.47 billion.

Management attributes the loss to asset impairments linked to depressed oil prices. Furthermore, the operating loss during the quarter was $309 million versus the $1.21 operating profit in Q1 2019.

Suncor has adjusted its capital spending plan twice already. In 2020, it will only be $1.8 billion, or one-third less than the original plan. There's a corresponding $1 billion cut in operating costs, which is 10% lower than the level in 2019.

Mark Little, Suncor's CEO, wants investors to know that the company's balance sheet remains strong. He adds the integrated business model will be the advantage, as Suncor navigates the rough seas ahead.

I'm not buying Suncor shares even if I know it has staying power. If I had shares now, I would hold them and not sell at a loss. However, I will panic if Warren Buffett sells his Suncor shares, which would mean the value investor has lost confidence in Suncor.

Horrible environment

Is the assessment that the oil and gas industry in Canada is dead an exaggeration? Maybe it is. But because of the horrible environment, oil stocks must be avoided. I believe Enbridge is the only viable choice in the sector.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:SU (Suncor Energy Inc.)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/19
Date Created
2020/05/15
Author
cliew