TSX Stocks: Why Canadian Energy Giants Plunged Last Week

Description

Last week was yet another bad one for **TSX** energy stocks. Energy investors hoped for a less harsh second half of 2020 than the nastier earlier one. However, things are not going to normalize at least in the short term and last week underlined the same.

Shares of **Suncor Energy** (TSX:SU)(NYSE:SU), the country's biggest integrated energy company by market cap, fell 7% last week. The trend was largely followed by peers, with **Cenovus Energy** stock dropping by 11% and **Husky Energy** losing 10%. The second biggest, **Canadian Natural Resources** (TSX:CNQ)(NYSE:CNQ) fared relatively better and lost 3 % last week.

Weaker Q2 earnings weighed on TSX energy stocks

The weakness was mainly caused by second-quarter earnings. Suncor Energy reported a loss of $1.5 billion for the quarter, increasing almost five-fold against the first quarter of 2020. Its lower production driven by lower crude oil prices and the pandemic dominated the quarter.

Peers Husky and Cenovus Energy did relatively better against Suncor in terms of Q2 earnings. Their loss lowered compared to Q1 despite a steeper fall in revenues.

Energy giant Canadian Natural will report its second-quarter earnings on August 6. After gloomy energy earnings last week, CNQ is unlikely to bring a sweet surprise for its investors. Analysts expect a billion-dollar loss for the quarter ended June 30, almost triple than what it lost in Q1 2020.

Gloomy drilling outlook

Apart from weaker quarterly earnings, a bleaker outlook from the Petroleum Services Association of Canada also weighed on energy stocks. The association lowered its drilling forecast for the third time this year, driven by several factors.

It expects 2,800 oil wells will be drilled this year against last year's 4,900 wells. The slowing global economy, lower crude oil prices, and higher debt levels were some of the factors that influenced the downward revision.

That simply means lower production, lower incomes, and hence subdued stock prices. Uncertain recovery from the pandemic makes picture further bleaker for energy investors.

Energy stocks have been significantly underperforming broad market indexes for the last few years now. In the last five years, Suncor has lost 33%, while Canadian Natural has lost 20% of shareholders' wealth. Things don't notably change when the time frame is changed to a decade.

TSX energy stocks will likely continue to trade weak, at least in the short term. Suncor Energy stock has already lost more than 50% so far in 2020. Canadian Natural stock sunk 43% in the same period.

Crude oil prices have glued to $40 per barrel level for the last few months. In the second quarter of 2020, oil witnessed one of the best recoveries on record, mainly driven by higher demand from China. However, that demand is gradually slowing and could further disrupt the energy demand-supply equation.

The Foolish takeaway

Shares of Suncor Energy and Canadian Natural are trading at a notable discount against their respective historical averages. However, a gloomy outlook might keep investors at bay.

Canadian Natural's diversified product base and Suncor's large downstream operations will likely fuel faster recovery among peers. But challenges like the lower demand driven by the pandemic and ensuing oil prices might dominate them in the near future.

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Author
vinitkularni20