WARNING: Will Energy Stocks Suffer Due to an Oil Glut?

Description

The COVID-19 pandemic sent shock waves through Canadian markets in the late winter and early spring. Some sectors were hit harder than others. Unfortunately, Canada's energy heavy **TSX** index was weighed down further by a price war between Russia and Saudi Arabia earlier this year.

Today, I want to discuss whether recent trends in the oil and gas sector could have a negative impact on Canadian energy stocks. Let's jump in.

Oil glut: How will it impact energy stocks?

In late 2019, oil prices were boosted by heightening tensions in the Middle East. Moreover, OPEC has worked diligently to keep production as low as they feasibly can to underpin low prices. This effectiveness of this strategy has waned in recent years, and many producers may now be facing an oil glut.

OPEC has elected to ease some production cuts in August. While oil prices have largely flattened out in the summer, some analysts are now worried that this uptick in production could stir volatility. Worse, the COVID-19 pandemic has continued to ravage the United States.

This has some in the industry anxious that oil and gas demand could be headed south in the months ahead. On the other hand, positive economic data in Europe, Asia, and the U.S. stirred an uptick for oil to kick off this month.

Today, I want to discuss two top TSX energy stocks that I'm still bullish on in early August. Fears of an oil glut are not unfounded, but this pathway is by no means guaranteed.

Two stocks to watch in August

Back in July, I'd discussed why I had my eyes on **Imperial Oil** (TSX:IMO)(NYSE:IMO). This company explores for, produces, and sells crude oil and natural gas in Canada. Its shares have dropped 37% in

2020 as of close on July 31.

Value investors who are looking at energy stocks have good reason to be excited about Imperial Oil. The company boasted a cash balance of $1.4 billion at the end of Q1 2020, putting it in a strong liquidity position. Moreover, shares of Imperial Oil last possessed a price-to-earnings ratio of 9.3 and a price-to-book value of 0.6. This puts the stock in attractive value territory relative to industry peers.

As an energy stock, Imperial Oil also offers a quarterly dividend of $0.22 per share. This represents a solid 4.2% yield.

Suncor is a Canadian energy giant that has taken its lumps during this crisis. Its stock has plunged 48% so far this year. The company took a major hit in the first quarter of 2020 due to “significant weakness and volatility in commodity prices.” If oil prices are pushed into turbulence before this year is through, Suncor could be in for a rough conclusion to 2020.

On the other hand, Suncor is a massive player in this space that has achieved impressive earnings growth in recent years. This energy stock last had a favourable P/B value of 0.9. It reduced its quarterly dividend to $0.21 per share, which still represents a 4% yield.

Should you avoid energy stocks?

Investors should not wave off the possibility of oil price volatility in the face of these headwinds. Of the two energy stocks above, I’m much more bullish on Imperial Oil as we start the month of August.

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