WARNING: Energy Stocks Still Too Risky

Description

Stocks in the oil and gas industry are still too risky of a bet today on the **Toronto Stock Exchange**. Analysts are commenting on an oversupply as OPEC plans production increases while demand remains low. Reduced travel and transportation during the COVID-19 pandemic caused a steep decline in demand for oil.

North America, in particular, face high costs to produce oil and gas. These higher costs compared to other oil-producing countries put Canadian oil firms at greater risk during this economic environment.

If you are thinking about investing in oil and gas companies, remain cautious with your investments. More important, energy investors should adopt a long-term mindset.

Demand in the oil and gas industry may take some time to recover. Meanwhile, the world is also transitioning into alternative energy sources. If you do invest in energy stocks, consider options that also invest in green energy solutions to stay current on innovative, growth-oriented trends in the industry.

Here are two energy stocks that you might want to avoid this year.

Baytex Energy Corp. issuing no dividends

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) fell to a 52-week low of $0.27 per share after the March 2020 market sell-off. The energy stock sold for a 52-week high of $2.32 in September 2019. At the time of writing, Baytex Energy stock is trading for $0.49 per share.

The stock is not currently issuing any dividends to shareholders. The market capitalization is around $275 million.

In the second-quarter earnings report, Baytex Energy Corp detailed how the COVID-19 pandemic has impacted the oil and gas industry:

> "The North American oil and gas industry has been particularly impacted as restrictions attempting to limit the spread of COVID-19 have resulted in a sharp decline in demand for crude oil combined with additional supply from the OPEC+ price war have resulted in unprecedented volatility in global crude oil prices. Global crude oil prices began to recover in Q2/2020 as members of OPEC+ agreed to production curtailments and governments began to ease restrictions that allowed economies to begin reopening."

Baytex Energy Corp is in an industry with ever-changing geopolitical forces with which the company must weather. Investors interested in earning returns from owning oil and gas stocks like Baytex Energy should be cautious. If you do want to buy energy stocks for your portfolio, more established and diversified energy companies that offer dividends might be the better way to go.

Cenovus Energy stock reports high debts

The price of **Cenovus Energy Inc** (TSX:CVE)(NYSE:CVE) stock dropped to a 52-week low of $2.06 per share after the March 2020 market crash. Prior to the COVID-19 pandemic, the stock traded at a 52-week high of $13.66. At the time of writing, investors are trading this energy stock for $5.22 per share.

Unlike Baytex Energy Corp, Cenovus Energy stock issues an annual dividend yield of 4.81% at the current market price. Moreover, the market capitalization on this stock is higher at $6.39 billion. This is a more established energy stock, but should you consider it for your retirement portfolio?

Alex Pourbaix, Cenovus President & Chief Executive Officer, commented on the steps Cenovus Energy took to mitigate negative effects from falling commodity prices during the COVID-19 pandemic:

> "We made the strategic decision to use the flexibility of our business and relied on the collaboration of our upstream and marketing teams to manage the timing, storage and sales approach for our oil production," said Pourbaix. "We are maximizing value for our shareholders even in this challenging economic environment."

Cenovus Energy is a highly indebted company, increasing the risk to equity investors. Pourbaix may be confident in the firm's ability to flexibly manage falling oil demand and the geopolitical landscape, but shareholders might want to hold off on any new positions.

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