Why Small-Cap Oil Stocks on the TSX Are Feeling the Heat!

Description

The COVID-19 pandemic has been battering the oil and gas industry for a while now, and some players have thrown in the towel. Companies in the oil and gas space have put themselves up for sale, as they hope to survive in a different world. Smaller players are getting acquired by companies with cash who are in a better position to weather the upcoming storms.

However, for the record, the pandemic is not the primary factor that has caused this scenario to play out. Major climate policy changes, a concentrated effort by governments to move away from fossil fuels, and a price war between OPEC and Russia in February had already put a lot of stress on the industry before the virus came in and delivered the telling blows.

A sharp contraction in economic activity around the world thanks to the shutdowns imposed by different countries meant that no one was buying the oil the companies were producing. In fact, in April, Vopak, the world's largest independent oil storage company, said that almost all the storage space for oil was taken up, and tankers began to be used as storage centres in May. Crude oil prices in the U.S. briefly fell below $0.

Consolidation is the norm for oil companies

Recent reports by **BP** and OPEC indicate that demand for oil might never recover to pre-pandemic levels, and the threat of a second pandemic wave will ensure that oil prices will continue to remain volatile. As oil prices crashed, the value of oil reserves has crashed along with them. This has led to a drying up of once-prolific credit lines for oil and gas companies.

While the industry is struggling right now, smaller companies began to sell assets, and sometimes themselves, in an effort for survival. Canada's Montney oil and gas region has seen nine deals in this space.

U.S. giant **ConocoPhillips** acquired 140,000 net acres of **Kelt Exploration** for $375 million. These acres were in the liquids-rich Inga-Fireweed asset Montney zone, which is directly adjacent to ConocoPhilips's existing Montney position.

In August, **Painted Pony** announced that it was being bought by **Canadian Natural Resources** for $461 million. Canadian Natural Resources will assume Painted Pony's total debt of approximately $350 million. In July, **Advantage Oil and Gas**, a mid-sized player in Canada's gas sector, sold off a stake in its Glacier gas plant for $100 million, as it sought to increase liquidity.

The Foolish takeaway

Not all companies have been lucky enough to find buyers. Bow River Energy, Cequence Energy, and Delphi Energy have filed for protection under the Companies' Creditors Arrangement Act (CCAA). They are trying to come up with a restructuring plan with creditors that will help them avoid bankruptcy. Options on the table include searching for saviours in the form of private equity players.

It is expected that a lot of smaller companies will continue to look at CCAA as an option to avoid receivership or bankruptcy. We might see larger players like **Enbridge**, **Suncor**, and Canadian Natural Resources as the only ones left standing.

CATEGORY

1. Energy Stocks
2. Investing

PARTNER-FEEDS

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

Category

1. Energy Stocks
2. Investing

Date
2025/09/28
Date Created
2020/09/28
Author
araghunath