



Declining Oil Prices: The Energy Sector Might Go Into Crisis Mode

Description

The year 2021 has been good for the energy sector — so far at least. The S&P/TSX Capped Energy Index is still up 22% from the start of the year, but it has been slumping, along with the oil prices, for the last few days. The situation is nowhere near as dire as it was at the height of the pandemic, but it's because the demand then was globally affected. Right now, the picture is quite distorted.

The two largest oil importers in the world — i.e., China and the U.S. — have almost fully recovered from the pandemic. In these two countries, it's business as usual. Even though the economy and industry are still not completely back on track, the prospects look promising. The demand for gasoline and other oil products is expected to slowly but consistently rise. It's important because oil producers around the globe have to get rid of the surplus.

But the situation is starkly different for the third-largest importer: India.

One cause of the declining oil demand

India, the second-largest country in the world and the third-largest oil importer, is in a desperate struggle against the new wave of the pandemic, which is threatening to overwhelm the country's healthcare system. India recently recorded the highest number of new cases yet, and the death toll is rising at an alarming rate. While the country hasn't gone into a full lockdown yet, it might soon, which has the potential to cause another dip in the oil prospects.

There are other factors at play as well. If the U.S. lifts sanctions from Iran, the market might be flooded with another batch of surplus, and if it coincides with relatively low demand, the impact on the oil prices could be devastating.

Indirect exposure

Gaining direct exposure to the energy market in its current state might not be palatable for many risk-averse investors. However, gaining indirect exposure to the sector through a stock like **TerraVest Industries**

([TSX:TVK](#)) might still be a viable option. The company has various business segments and a product line for both its B2B and B2C customers.

[The company](#) makes home heating products for its domestic consumers. It also manufactures vessels and specialized transportation vehicles for ammonia and NGL, which is where its energy sector exposure comes from. The company saw its revenues decline precipitously in the second and third quarter of 2020, but the last quarter's revenues hit quite close to its 2019 counterparts.

The company offers a modest yield of 2.2%. But you may want to buy into the company for its growth. It has been growing quite consistently for the last five years and has a five-year CAGR of 29.4%.

Foolish takeaway

Like the airline business, [the energy sector](#) is likely to take several years to heal up completely. There are several external factors, like dissent in the OPEC+ companies, major environmental sanctions, or renewable energy breakthroughs that might have the potential to disrupt the recovery prospects of the sector.

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Author

adamohtman

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