Oil Industry Windfall Tax: 2 Energy Stocks to Keep an Eye on

Description

Windfall taxes are a relatively new phenomenon, going back only about 25 years. They were first levied in the U.K., and the U.K. government has levied them again on the oil and gas industry. The idea is to take a sizeable bite out of the extraordinary profits the energy companies are enjoying right now.

Here in Canada, a windfall tax for the energy sector has not even been officially suggested yet. Some environmental groups and non-profits are calling for one, but there has been serious pushback. The post-pandemic market allowed the Canadian energy sector to truly grow for the first time in a decade and push through the debris of the 2014-2015 fall.

It's highly unlikely that a windfall tax would be levied on the energy sector here in Canada, but even a serious discussion might put investors on guard.

And if a sizeable number of investors start cashing out their energy-sector profits assuming that the recovery momentum is coming to an end, it can trigger a damaging correction. And if that happens, there are two types of energy stocks you should keep an eye on.

Powerful growers

The Western Canadian oil and gas producer and Calgary-based **Baytex Energy** (TSX:BTE)(NYSE:BTE) experienced powerful and almost unprecedented growth. The stock has risen well over 2,800% since the 2020 crash, and it's still rising. And thanks to incredibly strong financials, the stock is currently boasting a price-to-earnings ratio of about 2.96.

Even though we might consider the growth unsustainable, the height the stock has reached cannot be called "unprecedented," as the stock, which is still trading in single digits ($8.8 per share), used to trade near $60 per share in its glory days (around 2012).

The stock is unlikely to reach that high again, because even if a windfall tax is not the trigger, a correction *is* overdue. And if the fall is even modestly proportional to the rise, we might see the stock go down a long way before stabilizing.

Steady stocks

On the other end of the spectrum are stocks like **Pembina Pipeline** (TSX:PPL)(NYSE:PBA), a stock that has grown over 123% since the 2020 crash. It may not seem incredible compared to the 2,800% growth of Baytex Energy, but it is quite decent considering the stock's stable historical performance. It was one of the few energy stocks in Canada that regained its peak 2014 value pre-pandemic.

The business model — i.e., the pipeline — can be considered partially responsible for this stability, as another company, **TC Energy**, achieved the same feat.

This stability is what makes Pembina interesting energy security to keep an eye on when the sector finally enters the correction phase. The fall will most likely be much milder compared to the 2020 crash, though even a small decline can push the already juicy yield of 4.9% up by a sizeable margin.

Foolish takeaway

The energy sector in Canada has seen incredible growth in the last couple of years, and even though it's difficult to gauge how much of this growth it will be able to retain, it might be safe to assume that the fall will not push the sector back to 2015 levels. That's especially true if the oil prices remain above US$100 per barrel.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:BTE (Baytex Energy Corp.)
3. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman

2. kduncombe

Category

1. Energy Stocks
2. Investing

Date
2025/07/03
Date Created
2022/06/13
Author
adamothman