



Unpopular Opinion: Oil Stocks Are Still Good

Description

Oil stocks have fallen out of favour over the last month. In the first half of the year, oil prices rallied; at one point, they were up 59% for the year. However, much of the gains evaporated over the course of July and August. At this point, oil is only up 16% from the start of the year.

It's beginning to look like peoples' fantasies of getting rich in oil stocks were overoptimistic. At the height of the oil bubble, we had banks calling for crude oil to go to US\$380 — that's starting to look a little ridiculous.

However, there is a real basis for thinking that oil stocks will perform reasonably well this year. We don't actually need progressively higher oil prices for oil stocks to rise. Even the current prices, which are way down from 52-week highs, will produce solid earnings growth for the major oil companies. In this article, I will explain why I'm still fairly bullish on oil stocks for the remainder of this year.

Oil prices don't need to rise much for oil stocks to be good buys

It's a mistake to think that oil needs to go up every week or month for [oil companies](#) to make money. Most North American oil companies break even at somewhere in the \$40-50 range. The highest oil price last year was \$77, so oil companies will deliver positive earnings growth with oil above \$80. Many analysts covering the energy sector seem to be forgetting this. Corporate earnings are usually compared to where they were a year before, not one quarter ago. Therefore, oil companies will still grow with oil prices where they are today.

Additionally, the kinds of earnings that oil companies are putting out now imply that their shares are cheap. Just recently, **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) put out a blockbuster quarter, with revenue up 75% and earnings up 360%. Funds from operations was a [staggering \\$5.3 billion](#) — more than **Meta Platforms's** free cash flow in the same quarter! Yet Suncor Energy doesn't have anywhere near the market cap of the American big tech giants. So, there's a solid case to be made that its shares are currently undervalued.

One big caveat

One big caveat to the bullish point I've made about oil companies in this article is that it doesn't establish that oil stocks will make anyone rich. I'm only saying that oil stocks are cheap enough that they could perform decently well from today's levels. We are no longer seeing the kinds of oil prices that made oil stocks rally out of control earlier in the year. Had those prices persisted, oil stocks would have gone on to make investors life changing amounts of money.

When **JP Morgan** called for oil to \$380, it wasn't just being optimistic; it was echoing a pretty common sentiment from earlier this year. Many oil investors thought that crude prices would keep going up and up, with \$200 price targets being common. Had those kinds of prices materialized, then oil stocks would have made investors insanely rich. That's not in the conversation anymore. Oil stocks will probably perform reasonably well, but we're no longer talking about life-changing amounts of money.

All that being said, oil stocks are still worth looking at. I have a small percentage of my money in **Occidental Petroleum**, and I traded Suncor Energy profitably twice this year. If prices come down a bit more, I might add some more oil to my portfolio. For now, I'm content with the tiny amount of exposure I have.

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