



Why I'm Still Holding Oil Stocks

Description

The oil trade is more controversial right now than it was at the start of the year. When oil rallied from US\$77 at the start of the year to US\$120 in June, everybody and their dog was praising oil stocks. I made some short-term oil investments in that period and profited off them. Later, though, oil prices fell down to US\$86.

As of this writing, West Texas Intermediate (WTI) crude (the main North American crude benchmark) is at \$89. People are now beginning to sour on oil and gas. For my part, I'm just buying more. Here's why.

The strategic petroleum reserve release will end

Oil companies like **Suncor Energy** ([TSX:SU](#))([NYSE:SU](#)) directly profit off rising oil prices. They sell oil and oil-related products like gasoline, so the more oil rises, the more sales they make. In the meantime, their costs do not go higher (except for refinery costs), so their sales rise a lot while costs only rise a little. The result of this is higher profits.

We can see this clearly by looking at Suncor's most recent quarter. In the second quarter, Suncor delivered

- \$16 billion in revenue, up 76%;
- \$4 billion in earnings, up 360%; and
- \$5.95 billion in operating income (i.e., profit before interest and tax), up 400%.

It was an incredibly solid showing, but Suncor was not at all unique in delivering such growth in the second quarter. Many other [oil companies](#) did the same thing, because high oil prices enabled it. The higher oil prices go, the more money oil companies collectively make. On top of that, most of these companies are paying off their debt this year, so they can even grow their profits with oil prices not changing.

Oil demand is strong while supply is low

If the thesis on oil stocks is that they will rise as long as crude rises, then we need to know where oil prices are headed. We know that oil has been trending down since June, but there are reasons to think that it could rise in the winter.

First, Europe is going through a huge energy crisis that is pushing the continent's natural gas prices to record highs. Oil and gas aren't the same thing, but many oil companies (e.g., Suncor) sell natural gas, so they have opportunities to gain in that market.

Second, the U.S. is scheduled to stop releasing oil from its emergency stockpile (the SPR) this October. That will reduce the supply on the market.

Third and finally, the IEA (the world's most prestigious energy organization) has forecast that [demand for oil will rise](#) by 2.1 barrels per day.

Take all the above factors together, and you've got a recipe for higher oil prices.

Two oil stocks I've bought this year

Having explained why I think oil stocks will do well this year, I can reveal which oil stocks I've been buying.

Earlier in the year, I've bought and sold Suncor Energy twice. This was in the first half of the year, while the oil bull market was still ongoing. I profited off both trades, but I did not enjoy the experience of holding Suncor. The oil price volatility gave me the jitters.

Later, I got into **Occidental Petroleum** ([NYSE:OXY](#)) stock, which I'm currently up on. Warren Buffett has been buying this stock all year long and now owns 22% of the company. Buffett's consistent buying has made OXY less volatile than other oil stocks, with fewer up-and-down swings. When a big buyer gobbles up a huge percentage of a company and never sells their shares, that reduces price swings, because it decreases the supply of shares. For this reason, I find OXY stock less stressful to hold than Suncor. Buffett's buying is smoothing out the experience of holding it.

CATEGORY

1. Energy Stocks
2. Investing

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2. NYSE:SU (Suncor Energy Inc.)
3. TSX:SU (Suncor Energy Inc.)

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