THE GLOBE AND MAIL

November 23, 2018

On the TSX, pain is spreading beyond energy stocks as crude's tumble gathers steam

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Crude prices sank to new lows for the year on Friday, sending Canadian energy stocks into a tailspin and adding to concerns that the damage is spreading well beyond the oil patch.

The re-emergence of an oversupply in the global oil market dragged U.S. crude down by 7.8 per cent on Friday to just above the US$50-a-barrel mark in what has been a swift descent from more than US$76 in just two months. The price for Western Canadian select – Canada's heavy-oil benchmark – fell to just US$1 a barrel above an all-time low of US$13.46 on Nov. 15.

The bear market in oil globally combined with a persistent discount on Alberta crude has resulted in a powerful double negative for Canadian energy stocks. The S&P/TSX energy index slumped nearly 5 per cent Friday to levels not far off the depths of the 2014-to-2016 crash in oil prices.

Shares of big Canadian energy producers such as Suncor Energy Inc., Canadian Natural Resources Ltd. and Cenovus Energy Inc. on Friday posted losses of between 4 per cent to 8 per cent, leaving them with declines of 20 per cent to 35 per cent since mid-July.

Problems in Canada's oil patch are rippling through to other companies with exposure to the sector. The S&P/TSX Composite Index is down by 7.4 per cent so far this year, reinforcing the sway the energy sector still holds over the Canadian market.

"In terms of sentiment and the view towards the Canadian stock market, the influence of oil is as large now as it ever has been," said Ryan Bushell, president and portfolio manager of Toronto-based Newhaven Asset Management.

Take the big Canadian bank stocks, which are on pace for their second-worst calendar year since the financial crisis. Despite decent earnings growth, bank valuations are close to the bottom of their historical range.

The Canadian dollar, meanwhile, has recently rekindled its close relationship with the global price of oil, having dropped by 6 US cents from its 2018 high.

There are casualties of the oil sell-off to be found throughout the Canadian market. These are some of the non-energy names feeling the squeeze, showing their share-price declines from their respective 52-week highs.

METHANEX CORP., DOWN BY 30.0 PER CENT

This Vancouver-based company is the world's largest supplier of methanol, which is used in the production of a number of chemicals, plastics, and as an additive to gasoline. A good portion of the demand for methanol is energy-related, making the stock highly susceptible to oil fluctuations. "We believe there is good upside for investors who are bullish on the global economy," Nelson Ng, an RBC Dominion Securities analyst, said in a recent note.

BOARDWALK REIT, DOWN BY 18.3 PER CENT

Boardwalk's portfolio of residential rental properties is heavily concentrated in Alberta, where housing demand rises and falls with the oil economy. Never having really recovered from the bear market in oil starting four years ago, Boardwalk's share price is under renewed pressure now. "Is this the new normal?" Canaccord Genuity analyst Brendon Abrams wrote. "An expectation that [the] current woes facing Alberta's primary economic driver, the energy sector, will be resolved in the near term, requires … a very optimistic viewpoint."

FINNING INTERNATIONAL INC., DOWN BY 22.5 PER CENT

As a Caterpillar dealer focused on Western Canada, Finning is active in providing heavy machinery to oil-patch companies. The prospect of production cuts tends to weigh on the company's stock whenever crude hits a sustained downturn. "But it shouldn't go down one for one with the oil price, and that's kind of what's happened," Mr. Bushell said.

CANADIAN WESTERN BANK, DOWN BY 31.3 PER CENT

After its stock bottomed out in early 2016, it took nearly two years for CWB shares to recover from the previous Alberta recession. Now, the return of cheap oil has resurrected fears of slowing loan growth and rising loan losses. "Canadian Western Bank likely faces the highest relative credit risk given its geographic concentration in Western Canada," ***Veritas Investment Research*** analyst ***Nigel D'Souza*** said in a note.

RUSSEL METALS INC., DOWN BY 25.8 PER CENT

Between steel tariffs and the oil slide, it's been a double whammy for Russel this year, which generates about 40 per cent of its revenues selling tubular products to oil and gas drillers. The sell-side remains relatively upbeat on the stock, however, with three out of four analysts following the company rating its stock a "buy."

Editor's note: A quote from ***Veritas Investment Research*** about Canadian Western Bank was taken from an outdated report. The quote has been substituted with an updated quote from ***Veritas***.