The Top 3 Oil Names to Own as Tensions with Iran Worsen

With tensions boiling with Iran again, it's time to buy oversold oil stocks.

Over the weekend, Iran said they've started using more advanced centrifuges, which could speed up the development of a nuclear weapon. In fact, Iran has been using IR-4 and IR-6 centrifuges and could soon test even more advanced models.

"Unfortunately. the European parties have failed to fulfill their commitments... The deal is not a one-way street and Iran will act accordingly as we have done so far by gradually downgrading our commitments," said Ali Akbar Salehi, director of Iran's nuclear energy agency, as quoted by Reuters, "Iran will continue to reduce its nuclear commitments as long as the other parties fail to carry out their commitments."

While the International Atomic Energy Agency will be allowed to monitor Iran's nuclear sites, Iran has also set a 60-day deadline for Europe.

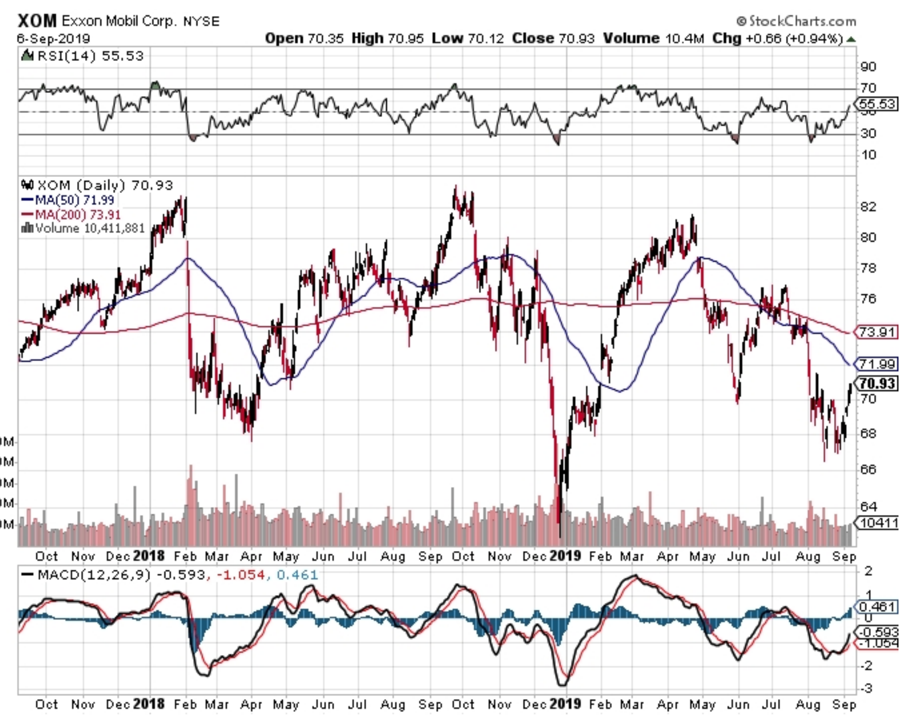
If they can't meet that deadline, nuclear escalation could continue followed by a chance for conflict. Worse, tensions between the U.S. and Iran have only risen in recent months with attacks on oil tankers in the Strait of Hormuz, surveillance drones being shot down, and other incidents in the region.

All of that could destabilize the region, and send oil prices screaming higher.

As the situation shows signs of potential escalation, we went looking for some of the most oversold opportunities we could find in oil. Some of those opportunities include:

Exxon Mobil (XOM)

After slipping from a 2019 high of $81.27 to $66.53, Exxon Mobil has become incredibly oversold at support. We believe the stock could easily run back to its 2019 high should tensions boil over with Iran again. Plus, analysts believe the market is underestimating the stock, and the cash it may be able to generate in coming years.



In fact, according to Barron's, "Exxon's decision to spend more aggressively now will pay off in enormous free cash flow a few years out," says Bank of America Merrill, which also rates the stock with a buy rating with a $100 target. "After paying capital expenses and dividends, Exxon is expected to have a $6.5 billion free-cash-flow deficit in 2020. Exxon's large investments should start paying off in subsequent years, so that its free cash flow after dividends swings positive in 2022 and rises to $5.3 billion in 2024."

There are two great ways to trade it here. One is to buy the XOM stock at market prices. The other is to buy the XOM January 17, 2020 70 calls at market.

Chevron Corporation (CVX)

After slipping from a 2019 high of $126 to $114, CVX has also become incredibly oversold at support. We believe the stock could easily run back to its 2019 high should tensions boil over with Iran again. There are two great ways to trade CVX, as well. One is to buy the stock at market prices. The other is to buy the CVX January 17, 2020 120 calls at market prices.

Occidental Petroleum (OXY)

OXY is another one that was severely beaten down in recent months from $67.50 to $42.50. However, it appears to be excessively oversold, and could be another standout winner should push come to blows with Iran over nuclear ambitions. Analysts at Susquehanna initiated a positive rating on the stock with a price target of $55 earlier this month. There are two great ways to trade it here. One is to buy the OXY stock at market prices. The other is to buy the OXY January 17, 2020 45 calls at market prices.


OXY Occidental Petroleum Corp. NYSE
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6-Sep-2019
Open 44.95 High 45.81 Low 44.55 Close 45.46 Volume 11.0M Chg +0.37 (+0.82%)
RSI(14) 50.11
OXY (Daily) 45.46
MA(50) 47.94
MA(200) 57.54
Volume 10,951,672
MACD(12,26,9) -1.160, -1.547, 0.387
Oct
Nov
Dec
2019
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