

Should You Buy Baytex Energy Corp. or Canadian Oil Sands Ltd.?

Description

Baytex Energy Corp. ([TSX:BTE](#))(NYSE:BTE) and **Canadian Oil Sands Ltd.** (TSX:COS) have both enjoyed significant rallies from their recent lows. With West Texas Intermediate (WTI) oil holding above \$50 per barrel, investors are looking for beaten-up stocks that could deliver big returns if crude oil continues to recover.

Let's take a look at these two companies to see if one belongs in your portfolio.

Baytex Energy Corp.

Baytex was riding a wave of exuberance last summer. Oil prices traded well above \$100 per barrel and the company closed a huge deal to buy prime assets in the Eagle Ford shale play.

Baytex even increased its dividend by 9%. Production was rising and investors piled into the stock, which still traded above \$48 as late as the end of August.

As the leaves began to change colours, the rout in the oil market picked up steam and by December, Baytex's entire world had turned upside down. The company slashed its dividend by 60% and reduced 2015 capital outlays by 30%.

The stock briefly fell below \$15 per share, but has since rebounded more than 40%.

Baytex plans to direct most of its capital program to the Eagle Ford assets, where production results have been better than expected.

At the end of Q3 2014, Baytex had 37% of its net and WTI exposure hedged at more than \$90 per barrel for the first half of 2015.

The company now pays a dividend of \$1.20 per share that yields about 5.4%.

Canadian Oil Sands Ltd.

The story of Canadian Oil Sands is an ugly one. The company has been struggling with operational challenges at the Syncrude oil sands project for at least three years.

Production capacity at Syncrude is 350,000 barrels per day, but Canadian Oil Sands and its partners only managed to average 258,000 barrels per day in 2014. Operating costs per barrel came in at \$44.

The rout in oil prices has made the situation much worse, and Canadian Oil Sands has been forced to drastically reduce its dividend to the point where income investors are no longer interested.

The stock plunged to \$6 per share when the company announced the expected dividend reduction, but speculators have driven the shares higher in hopes of a buyout from one of the larger Syncrude

partners.

Which stock is a better bet?

Both companies have enjoyed healthy rallies, and a quick reversal in oil prices could send the stocks plummeting again.

In the short term, Canadian Oil Sands is not very attractive, given the operational challenges at Syncrude. Buying the stock in the hopes that it will be bought out is not a good idea. The Syncrude partners will wait until Canadian Oil Sands is in really dire straits before making a move.

Baytex is probably a better choice if you believe oil prices have bottomed. The management runs a very efficient operation, the company owns great assets, and the dividend should be safe at this level.

CATEGORY

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TICKERS GLOBAL

1. TSX:BTE (Baytex Energy Corp.)

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