Oil Hits a Six Year Low. Don't Hit the Panic Button: Now Is the Time to Buy!

Description

Oil has plunged again, creating consternation among investors, with West Texas Intermediate (WTI) hitting its lowest point in six years. This has triggered another sell-off of oil stocks with the **S&P/TSX Capped Energy Index—**a weighted index of the 55 largest oil and gas companies listed on the TSX**—** down by 5% for the year to date.

While some investors are panicking, I believe that now is the time to buy, with some quality energy stocks trading at bargain prices.

Now what?

Three companies that stand out are **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET) and **Baytex Energy Corp.** (TSX:BTE)(NYSE:BTE).

All three have seen their share prices crushed since the oil rout began six months ago, and are down by 29%, 26% and 61% respectively, but this has left them with some very attractive valuation metrics. Crescent Point is trading with an enterprise value of eight times its 2015 EBITDA, whereas Vermilion's is 10 times and Baytex's is seven times.

They also all have a high-quality portfolio of oil assets, which has allowed them to generate solid operating margins with 2014 netbacks of $50.39, $56.79 and $37.13 per barrel respectively. The quality of these assets and the healthy margins they generate will help to shield them from the current weakness in crude prices.

Crescent Point has also established a solid hedging position, with just over half of its forecast 2015 oil production hedged at $89 per barrel and a third of its 2016 production hedged at $84 per barrel. This will shield its cash flow from weaker oil prices, ensuring that it can meet its financial obligations, including dividend payments.

In fact, Crescent Point and Vermilion are two energy companies that have yet to cut their dividends. This is because both companies have the financial flexibility that a solid balance sheet and a low degree of leverage offers. They finished 2014 with net-debt of 1.3 and 1.6 times cash flow respectively.

Vermilion also has a financial edge that many of its Canadian-based counterparts lack. This edge is the ability to access Brent oil pricing because of its diversified portfolio of oil assets in Europe and Australia. Brent trades at a 21% premium to WTI and will continue to do so, with U.S. light sweet crude production and inventories set to keep growing.

Meanwhile, Baytex holds a portfolio of quality oil assets, including 188 million barrels of light crude located in the sweet spot of the Texas Eagle Ford shale. In a prudent move after slashing its 2015 capital budget, it has focused the majority of its expenditures on these more profitable assets, which deliver a higher netback per barrel than its Canadian assets.

Baytex has also completed a financing deal to the tune of $550 million, leaving it well positioned to weather the current downturn in crude prices.

So what?

I believe all three companies offer investors considerable value because they are attractively priced with quality oil assets and strong balance sheets, making now the time to take the plunge.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:VET (Vermilion Energy)
2. NYSE:VRN (Veren)
3. TSX:BTE (Baytex Energy Corp.)
4. TSX:VET (Vermilion Energy Inc.)
5. TSX:VRN (Veren Inc.)

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